

89-896
No.

Supreme Court, U.S.

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IN THE
Supreme Court of the United States
OCTOBER TERM, 1989

RED BARON - FRANKLIN PARK, INC., and
FUN FACTORIES OF OHIO, INC.,
Petitioners,

v.

TAITO CORP. and TAITO AMERICA CORP.,
Respondents.

**PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT**

RICHARD H. STERN
Counsel of Record
Suite 300
1300 19th Street, N.W.
Washington, D.C. 20036
(202) 659-1385

QUESTIONS PRESENTED

I.

Whether — when the respondent copyright owner sold outright a product covered by the respondents' copyright, and the product (coin-operated video game equipment) is useful for only one purpose (playing video games in a video game arcade, held below to be "public performance" within the meaning of the Copyright Act) — a purchaser of the product who uses it for that purpose thereby becomes liable to the copyright owner as an infringer.

We consider the following subsidiary questions to be included within the foregoing question: Whether, in these circumstances, (a) the sale has exhausted or extinguished the seller's copyright monopoly, so that the seller has no right under the copyright laws to regulate the purchaser's use of the product; (b) the seller is estopped from suing purchasers for copyright infringement; (c) the seller has by implication licensed purchasers so to use the product; or (d) the seller is otherwise legally precluded from such suit.

II.

Whether playing a copyrighted video game in a video game arcade is an infringing "public performance" within the meaning of the Copyright Act.



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OPINIONS BELOW

The opinion of the court of appeals (App. E, *infra*) and its order amending its opinion (App. F, *infra*) are not yet officially reported.¹ The opinion of the United States District Court for the Eastern District of Virginia (App. B, *infra*) and its order denying the defendants' motion for amendment of the judgment (App. D, *infra*) are not officially reported.

¹The caption to this petition identifies all of the parties to the appeal below. Petitioners have no parents, subsidiaries, or affiliates.

JURISDICTION

The judgment of the court of appeals was entered on July 18, 1989 (App. E, *infra*). The petitioners' timely Petition for Rehearing was denied on September 5, 1989 (app. F, *infra*). This Court's jurisdiction is invoked under 28 U.S.C. § 1254(1).

STATUTES INVOLVED

Sections 101, 106, and 109(a) of the Copyright Act (17 U.S.C. §§ 101, 106, and 109(a)) are reproduced in pertinent part in App. A at page 1a, *infra*.

STATEMENT OF THE CASE

This action was brought as a test case in the video game industry to challenge the practice by major video game equipment manufacturers of using the U.S. copyright laws to force equipment tie-ins on video game operators.² A coin-operated video game machine contains an electronic printed circuit board (a "board") for playing the video game, a TV monitor for displaying the game, a coin-acceptor mechanism, a power supply, and other hardware items, all of which are placed in a wooden cabinet (JA 18-20).³ Video games, such as those involved in this case, are marketed in two ways: one way is by sale of the boards to operators, who then place the boards in their own coin-operated cabinets; the other way is by an equipment tie-in sale, the sale of so-called "dedicated games." A dedicated game is a wooden cabinet containing a board and

²An "operator" is a person who runs a video game arcade or who places coin-operated video game machines in a "7-11" or similar retail location, where customers pay to play the video games.

³The Joint Appendix in the court of appeals is cited "JA__." The appendices to this petition, printed *infra*, are cited "App.__a."

all the other hardware of a coin-operated video game machine (JA 20-21). In both cases, the coin-operated video game equipment has utility only for commercial use in video game arcades and similar locations (App. 19a-20a).

The respondent copyright owner marketed the video games involved in this case outside the United States by the sale of boards, but marketed them in the United States only on a tie-in basis as dedicated games (JA 21-23, 33, 58, 150-51, 374). Operators, such as the petitioners, sought to avoid this compulsory tie-in by purchasing genuine boards that the respondent copyright owner had sold in Japan, and by then importing the boards into the United States (JA 23, 374). The respondents sought to prevent this "parallel importation" or "gray marketing" by threats of suit under the federal copyright laws, which led to this test case.

The Parties

The petitioners (collectively referred to as "Red Baron") operate eight video game arcades. The respondents (collectively referred to as "Taito") are Taito Corp., a Japanese company which is one of the world's leading video game manufacturers, and Taito America Corp., its wholly-owned U.S. subsidiary, which is a major seller of coin-operated video game equipment in the United States.

The Double Dragon Game

In 1987 Taito began selling coin-operated video game equipment in Japan and the United States for a game known by the name "Double Dragon." Double Dragon became the first ranking video game in the United States, as measured by industry polls, and it remained in the first or second ranking position for approximately a year. Taito sold over 10,000 Double Dragon dedicated games in the United States, and over 80%

of U.S. video game operators bought at least one Double Dragon (JA 21-22). Taito received over \$20 million from its U.S. sales of Double Dragons (JA 192):

Respondent Taito Corp. owns a copyright in the Double Dragon "audiovisual work." It has given its wholly-owned subsidiary, respondent Taito America Corp., the exclusive right to market Double Dragon in the United States. The boards involved in this case, or contain, copies made by Taito of the copyrighted work.

Taito's Video Game Marketing Policies

Taito sold Double Dragon boards in Japan and other countries, by "sale outright." Taito conveyed "all right, title, property, and interest" in the boards to their purchasers, and retained "no property interest in the boards that it sold" (JA 33).⁴ Taito also used Double Dragon boards in Japan in its own video game arcades that it operated, and it later sold the used boards to brokers and other third persons. Some brokers resold used Taito boards into the United States with Taito's knowledge (JA 166-68; see JA 148).

Taito adopted a different marketing policy in the United States for Double Dragon games. It insisted on selling Double Dragon only as a dedicated game. It refused to sell Double Dragon boards by themselves, despite customer desire and

⁴After the record closed in this case Taito asserted for the first time, in briefs supporting a motion to amend the judgment, that its boards sold in Japan (but not other countries) caused a notice to appear on TV screens that the game was for use only in Japan and that use in other countries was prohibited (JA 363, 397-98). Red Baron immediately pointed out the lack of record support for the claim (JA 385), and Taito made no attempt to secure permission from the trial court to supplement the record. There is no evidence of record that Taito utilized any "for use in Japan only" notice with Double Dragon boards. Moreover, there was no such notice for the boards that Red Baron purchased.

requests to buy only the board without the tied hardware (JA 21-22, 58, 150-51; App. 15a, n.1). A Double Dragon dedicated game cost a U.S. operator approximately \$2500, but a genuine Taito Double Dragon board from Japan costs approximately \$480 (JA 22, 150-54). The other major Japanese video game equipment manufacturers imposed on U.S. customers a tie-in policy similar to Taito's and they collaborated with Taito in enforcing the policy (JA 26-27).

Parallel Importation of Double Dragons

Red Baron initially purchased Double Dragon as a dedicated game, as marketed by Taito's U.S. subsidiary. But later Red Baron purchased genuine Double Dragon boards that Taito had sold in Japan. Red Baron imported the boards into the United States, placed them into its own coin-operated cabinets, and then used the games in Red Baron's arcades (JA 23, 374). By engaging in such parallel importation, Red Baron obtained the Double Dragon game without being compelled also to buy the tied hardware from Taito.

During the period immediately preceding this lawsuit, there was considerable controversy and dispute within the video game industry over the dedicated game policy and whether it was legal for operators to circumvent that policy by recourse to parallel importation. Taito and other major video game manufacturers threatened U.S. operators with civil and criminal copyright infringement actions, if they imported, bought, and used "parallel" (gray market) boards in their arcades and other locations (JA 23-27, 35-36). That eventually led to Red Baron's bringing this test case to establish a right to import genuine boards as a way for operators to overcome the dedicated game/tie-in policy of Taito and the other major video game manufacturers.

Trial Court Proceedings

In February 1988 Red Baron sued the two Taito companies and a video game manufacturers trade association (American Amusement Machine Association, no longer in the case) in the Eastern District of Virginia, invoking federal copyright jurisdiction (JA 12). Red Baron sought a declaratory judgment and equitable relief, to establish its right to engage in parallel importation of genuine Taito Double Dragon video game boards. Taito counterclaimed for copyright infringement, alleging a violation of 17 U.S.C. § 602(a), and sought an injunction against Red Baron's parallel importation (JA 83-84).⁵

Taito moved for summary judgment on its copyright infringement counterclaim; Taito filed no supporting affidavits or other factual material at this time. Red Baron conceded that it had engaged in parallel importation of genuine Double Dragon boards, denied other factual contentions of Taito, and cross-moved for summary judgment of dismissal of Taito's copyright infringement counterclaim; Red Baron relied on the Verified Complaint and filed several additional declarations. The principal issue briefed and argued was whether the provisions of 17 U.S.C. § 602(a) concerning importation overrode the provisions of 17 U.S.C. § 109(a) concerning first sale and the exhaustion of copyright (see App. 6a-7a). Taito also asserted that Red Baron had engaged in unlawful public performance, but Red Baron denied it, responding that Taito had not submitted affidavits or other factual evidence, as required by F.R.Civ.P. 56, to show public performance by Red Baron (JA 257).

⁵Initially, there were other issues in the case, including monetary claims. But the parties subsequently agreed to dismiss all of their monetary claims, among others, and stipulated that the prevailing party would be entitled to a permanent injunction against the other party with regard to the parallel importation issues (see JA 10, 339-43).

On August 29, 1988 (App. B), the trial court denied Taito's motion and granted Red Baron's cross-motion, ruling that the provisions of §§ 109(a) and 602(a) of the Act should be harmonized with one another as described in the decision of the Third Circuit in *Sebastian Int'l, Inc. v. Consumer Contacts (Pty) Ltd.*, 847 F.2d 1093 (3d Cir. 1988). Such harmonization, the trial court held, required that Red Baron should be allowed to engage in parallel importation of genuine Taito Double Dragon boards. The trial court entered an injunction (App. C) in accordance with the parties' stipulation (JA 342), permanently enjoining Taito from interfering with Red Baron's parallel importation, use, and resale of genuine Double Dragon boards. Taito then moved to modify or alter the judgment and the trial court denied the motion (JA 406-10; App. D).

Court of Appeals Proceedings

Taito appealed to the Fourth Circuit with regard to only part of the judgment. Taito did not appeal the ruling that Red Baron was entitled to import and resell Double Dragon boards that Taito had sold in Japan. Taito conceded (App. 16a-17a) that Red Baron was entitled to purchase, import, and sell the boards. Taito appealed solely against the part of the judgment enjoining Taito from interfering with Red Baron's use in its arcades of the Double Dragon boards that it had imported, on the theory that such use by Red Baron was an unauthorized and thus infringing public performance of the Double Dragon audiovisual work.

First Fourth Circuit opinion. On July 18, 1989, the Fourth Circuit reversed and remanded (App. E). It ruled (App. 15a) that by selling the printed circuit video game boards in Japan Taito had not retained any right to control their resale, but that nonetheless Taito had sold the boards with a "restrictive notice" providing that they were for use in Japan only

and that use in other territories was prohibited (see note 4, *supra*). The court rejected Red Baron's alternative legal contentions that Taito's attempted invocation of the copyright laws to prevent Red Baron's arcade use of genuine parallel Double Dragons was precluded (a) by estoppel, implied license, or an equivalent legal doctrine, because commercial use in arcades was the only practical use for the boards; or else (b) by the first sale rule or exhaustion doctrine, because the copyright laws did not give Taito any right to exercise control over customers' use of the boards once Taito had sold them.

The Fourth Circuit recognized that the boards have utility only for commercial use in video game arcades or similar places (App. 19a-20a). The court said that it therefore appears to follow, as Red Baron contended, that "by selling the boards . . . Taito must intend to transfer the performance right, or must become estopped to deny that result, or must waive its right to claim infringement" (App. 20a). The court considered that conclusion to be inapplicable to the instant case, however, because of the supposed fact that Taito had provided a notice expressly restricting use of the boards to Japan (*id.*, n. 4).

The Fourth Circuit next ruled that, despite authority to the contrary in the Second and Ninth Circuits, the first sale rule did not apply to the public performance of audiovisual works, and therefore Red Baron's arcade use of the Double Dragon boards in the United States was an unauthorized and infringing public performance. The court stated that by its terms 17 U.S.C. § 109(a) is limited in its effects to distribution and does not apply to performance (App. 21a).

Additionally, the Fourth Circuit held that playing a video game in an arcade constitutes a public performance of the game's audiovisual work, for copyright infringement purposes, and it rejected Red Baron's contention that Congress did not intend to extend the definition of "public performance" to such individual conduct of video game players (App. 18a-19a).

Petition for rehearing. Red Baron filed a timely petition for rehearing, directed to the issue of estoppel and equivalent legal preclusion. Red Baron pointed out that there was no record evidence of the supposed fact of a "use in Japan only" notice, that Taito had made no evidentiary record on the motion for summary judgment, that in point of fact the claim of any such notice was false for the boards involved in this action, and that Red Baron had raised the spurious character of Taito's supposed notice repeatedly at every stage of the proceeding (see note 4, *supra*). Red Baron contended that the Fourth Circuit's engaging in this fact finding exercise in the absence of a supporting record violated procedural due process. The supposed fact of a "use in Japan only" notice, Red Baron further contended, was the linchpin of the court's ruling against estoppel and waiver; therefore, without it there was no way to avoid the conclusion that Taito was estopped or legally precluded from asserting the copyright against Red Baron's and other purchasers' use of the product for its only practical purpose.

Second Fourth Circuit opinion. On September 5, 1989, the Fourth Circuit denied the petition for rehearing but amended its opinion (App. F). It changed its two statements in the opinion that Taito had provided a restrictive "use in Japan only" notice to statements, instead, that Taito *claimed* that it had provided such notice. In addition, in a lengthy footnote it inserted into the opinion (App. 24a-25a), the court stated that the printed circuit board supposedly exhibiting the notice was admitted into evidence in the case, which did not occur,⁶

⁶The only pertinent "evidence" of record on the summary judgment motions consisted of the Verified Complaint and additional declarations submitted by Red Baron. No printed circuit board was ever received into evidence at any stage of the proceeding. (The board was exhibited to the court of appeals at oral argument, however, and counsel for petitioners offered to lodge it with the court of appeals for examination, so that the court could ascertain for itself that there was no "use in Japan only" notice. The court declined the offer.)

and that there should not have been a factual dispute over the notice. Finally, the Fourth Circuit stated that its "view of the proper disposition of this case does not depend on the presence or absence of the restrictive notice" (*id.*), so that the court's prior ruling of reversal and remand should stand despite the court's modification of the first opinion and retraction of the statements that Taito had provided such a notice.

After the Fourth Circuit issued its mandate, the trial court vacated its prior order and entered a new judgment in accordance with the opinion of the Fourth Circuit. The new judgment (App. G) permanently enjoined Taito from interfering with Red Baron's importation or resale of Double Dragon printed circuit boards, and permanently enjoined Red Baron from using in its video game arcades the Double Dragon boards that it so imported. The new judgment has been stayed, by stipulation of the parties, pending this Court's disposition of this petition.

REASONS FOR GRANTING THE WRIT

- A. THE DECISION BELOW, AUTHORIZING COPYRIGHT OWNERS TO USE FEDERAL LAW AS A VEHICLE TO WALL THE UNITED STATES MARKET OFF FROM THE REST OF THE WORLD MARKET, IN ORDER TO ESTABLISH DISCRIMINATORILY HIGHER PRICES FOR AMERICAN PURCHASERS AND IMPOSED EQUIPMENT TIE-INS ON THEM, CONFLICTS WITH THIS COURT'S *K-MART* DECISION AND DECISIONS OF OTHER CIRCUITS.**

The Fourth Circuit ruled that Taito was free to use federal copyright law as a vehicle for dividing world markets, because it had a public performance right that was not extinguished when it sold its copyrighted equipment. That holding empowers Taito to seal off the U.S. market from the rest of the world market, and establish a system of discriminatorily higher

prices for U.S. purchasers of its equipment. Under that system, the rest of the world video game industry is able to purchase Taito video game printed circuit boards at a fraction of the price that Taito charges U.S. purchasers for the same boards tied in with the other hardware of a complete "dedicated game." The price for a Double Dragon "parallel" ("gray market") board was less than \$500, while the price for a "dedicated game" (board plus tied-in equipment) was approximately \$2400 (JA 22, 150-54). The necessary effect of the holding below is that Taito can now use our copyright laws to force U.S. customers to buy the \$2400 tie-in product instead of importing and using the \$500 parallel product.

The effect of this decision is corrosive enough in the multi-billion dollar video game industry alone, which the decision now leaves to the mercy of a foreign cartel (JA 26). But the decision's impact is not limited to that industry. Any copyright owner able to assert an audiovisual work public performance right in a copyrighted product is free to follow the same pattern. For example, audiovisual work copyrights exist in computer programs and their screen displays. See, e.g., *Whelan Associates, Inc. v. Jaslow Dental Laboratory, Inc.*, 797 F.2d 1222, 1244 (3d Cir. 1986), *cert. denied*, 107 S. Ct. 877 (1987); *Broderbund Software, Inc. v. Unison World, Inc.*, 648 F. Supp. 1127, 1129 (N.D. Cal. 1986). Under the Fourth Circuit's reasoning, any business-office use of a computer program, such as "1-2-3" or "WordPerfect," can be regimented by cartel arrangements like Taito's, for that use would be a "performance" in a "public" place (see App. 19a).

The decision below thus conflicts with decisions of this and other courts, which refuse to allow the U.S. intellectual property laws to be used as vehicles for establishing and maintaining cartels. In *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811 (1988), this Court unanimously upheld Customs regula-

tions that denied relief under the trademark provisions of the Tariff Act to foreign companies that assigned their U.S. trademarks to their wholly-owned U.S. subsidiaries as a means of preventing parallel importation. In so ruling, the Court sustained Customs in its refusal to permit foreign trademark owners to utilize U.S. law as a vehicle for isolating the U.S. market from the world market and thereby compelling U.S. purchasers to pay discriminatorily higher prices.

Lower courts have repeatedly held that federal intellectual property laws must not be interpreted to support cartels. In *NEC Electronics v. Cal Circuit Abco*, 810 F.2d 1506 (9th Cir.), *cert. denied*, 108 S. Ct. 152 (1987), the Ninth Circuit denied federal Trademark Act relief to a Japanese company that attempted to establish discriminatorily higher prices for U.S. purchasers by the expedient of assigning its U.S. trademark rights to a U.S. subsidiary and having it bring trademark infringement suits against parallel importation. The court held, "This country's trademark law does not offer NEC-Japan a vehicle for establishing a worldwide discriminatory pricing scheme" (*id.* at 1511). Accord, *Weil Ceramics & Glass, Inc. v. Dash*, 878 F.2d 659 (3d Cir.), *cert. denied*, 110 S. Ct. 156 (1989) (O.T. 1989, No. 89-173); *Olympus Corp. v. United States*, 792 F.2d 315, 321-22 (2d Cir. 1986), *cert. denied*, 108 S. Ct. 2033 (1988). But see *Lever Bros., Inc. v. United States*, 877 F.2d 101 (D.C. Cir. 1989).

In *Sebastian Int'l, Inc. v. Consumer Contacts (Pty) Ltd.*, 847 F.2d 1093 (3d Cir. 1988), the Third Circuit held that even a U.S. company could not employ the federal Copyright Act to maintain higher prices in the United States by preventing parallel importation of copyrighted goods that it had sold abroad. The trial court in this case relied on the *Sebastian* decision as authority for permitting Red Baron to engage in parallel importation of boards that Taito had sold abroad. The Fourth

Circuit's opinion simply ignored *Sebastian* and the other parallel importation decisions on which Red Baron relied.

The decision below conflicts with the foregoing decisions of this Court and the Second, Third, and Ninth Circuits. The decision gives the Japanese Taito company the right to prevent U.S. parallel importation of genuine Double Dragon equipment by the expedient of having its U.S. subsidiary assert the copyright against Red Baron and other users of genuine parallel equipment. The court below has thus authorized Taito to utilize U.S. intellectual property law to isolate the U.S. market from the world market and impose discriminatorily high prices and an equipment tie-in on U.S. purchasers.

To be sure, technically, the decision below does not in express terms bar parallel importation of Double Dragon video game boards that Taito sold abroad — indeed, Taito conceded before the Fourth Circuit that Red Baron has a right to engage in such parallel importation (App. 16a-17a). But the practical effect of the decision is to suppress Red Baron's parallel importation of these genuine boards. The decision of the Fourth Circuit holds that Red Baron may *import* genuine Double Dragon boards but Red Baron must not *use* the boards once it has imported them; and the district court's remand judgment (App. G) expressly so provides in accordance with the mandate of the court of appeals. Clearly, it makes no sense for anyone to import equipment the only use of which (see App. 20a) the Fourth Circuit made unlawful once the equipment arrives in the United States.

The decision below therefore effectively suppresses any parallel importation of these goods, contrary to the policy favoring parallel importation of genuine goods upheld in *K Mart* by this Court and by decisions of the Second, Third, and Ninth Circuits. This Court should grant certiorari to reaffirm the federal policy favoring the parallel importation of genuine goods and to shut the loophole created below by which sellers may

set that policy aside by the device or expedient of asserting claims of unextinguished copyright "performance" rights.

B. THE DECISION BELOW THAT A COPYRIGHT OWNER MAY PREVENT PURCHASERS OF ITS COPYRIGHTED PRODUCTS FROM USING THEM FOR THEIR ONLY PRACTICAL PURPOSE CONFLICTS WITH THE DECISIONS OF THIS COURT AND OTHER CIRCUITS.

The Fourth Circuit recognized that the only practical use of the coin-operated video game equipment involved in this case is for what the court considered to be "public performance" use, that is, making the equipment available commercially for the use of customers in video game arcades or similar locations (App. 20a). The Fourth Circuit also recognized that the fact that the "boards have utility only" for such performance use would ordinarily lead to the legal conclusion that "by selling the boards . . . Taito must intend to transfer the performance right, or must become estopped to deny that result, or must waive its right to claim infringement" (*id.*). In its initial opinion, the court considered that legal conclusion to be inapplicable in this case, however, because Taito had provided a restrictive notice (App. 15a) asserting that the boards were sold for use only in Japan and that use elsewhere would be copyright infringement (App. 20a, n.4). Accordingly, the court held that Red Baron was responsible for unauthorized public performance of the Double Dragon video game work and thus copyright infringement.

Red Baron then petitioned for rehearing on the ground that there was no record evidence of any such "for use only in Japan" notice, and that in fact it did not exist.⁷ In response,

⁷The record on Taito's motion for summary judgment, which the trial court denied and the Fourth Circuit granted, was that Taito sold the boards "outright" and conveyed all "right, title, property, and interest" to the purchasers (JA 33).

the Fourth Circuit modified its opinion to delete any finding that there was such a notice, but nonetheless left standing its ruling of no estoppel or other legal preclusion. The court below did not provide any substitute rationale in its modified opinion; it simply left unexplained why estoppel or a similar legal preclusion did not prevent Taito from suing purchasers for using the product Taito had sold, for what the court acknowledged was the product's only useful purpose. Not only did the Fourth Circuit's modification of its opinion remove any support for its prior ruling of no estoppel, but it brought the ruling into direct conflict with decisions of other courts, including this Court, that the sale of a copyrighted or patented product carries with it a right of the purchaser to use the product for its ordinary or customary use.

Two lines of authority converge to support a purchaser's right to use such products for their ordinary and customary purposes, and certainly for their *only* useful purpose (as here).⁸ The decision below conflicts with both lines. Under the first line of authority, a seller is considered (a) to be estopped from preventing purchasers from using the product,⁹ (b) to have

⁸The two lines of authority include both copyright and patent cases, for the issue is one in which both bodies of intellectual property law have the same underlying policies. As this Court stated in *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 (1984): "The closest analogy [for copyright law] is provided by the patent law cases to which it is appropriate to refer because of the historic kinship between patent law and copyright law." Moreover, the present case is one in which the nature of the two intellectual property monopolies is identical, for the "public performance" right of copyright is a "use" right like that of patent law.

⁹Estoppels are universally accepted as applying to patent and copyright cases and limiting the rights of holders of such intellectual property. See, e.g., *Studiengesellschaft Kohle mbH v. Eastman Kodak Co.*, 616 F.2d 1315, 1325 (5th Cir. 1980), *cert. denied*, 449 U.S. 1014 (1981) (patents); *Lottie Joplin Thomas Trust v. Crown Pub., Inc.*, 592 F.2d 651, 655 (2d Cir. 1978) (copyrights); *Tempo Music, Inc. v. Myers*, 407 F.2d 503, 507-08 (4th Cir. 1969) (copyrights); *AMP, Inc. v. United States*, 389 F.2d 448, 452-54 (Ct. Cl.), *cert. denied*, 391 U.S. 964 (1968) (patents); *Berry Bros.*

granted a license by implication,¹⁰ or (c) otherwise to be legally precluded from depriving the purchaser of the right to the benefit of the purchase.¹¹ The gist of the legal rationales here is that if I sell you a car, you (or your successor in title to the car) are entitled to believe that you can drive the car afterwards without having to get my permission. Thus, courts consider it unfair and inequitable for a seller to sell his goods at a price satisfactory to him, and then to turn on purchasers and seek the assistance of the courts to deprive the purchasers of the beneficial use of the goods that they purchased. When, as here, the goods have but one use, for the seller to ask the courts to deny that use to the purchaser is unconscionable.

A second line of authority in this and lower courts proceeds on the theory that, by making the sale, the seller divested himself of (or "exhausted" or "extinguished") all rights under

Corp. v. Sigmon, 317 F.2d 700, 706 (4th Cir. 1963) (patents); *Straussler v. United States*, 290 F.2d 827, 830-31 (Ct. Cl. 1961) (patents); *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 104 (9th Cir.), *cert. denied*, 364 U.S. 882 (1960) (copyrights).

¹⁰Thus, in *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476 (1964), this Court stated that "it is fundamental that sale of a patented article carries with it an 'implied license to use.'" *Id.* at 484 (citations omitted). See also *id.* at 497 (sale effects "implied license to use" and patentee "cannot thereafter restrict that use"); *Met-Coil Systems, Inc. v. Korners Unlimited, Inc.*, 803 F.2d 684, 685-86, 687 (Fed. Cir. 1986) (patentee's sale of machine capable of use only in performing patented process implies license to use process, as matter of law).

¹¹Other decisions invoke the doctrine that a seller of goods may not lawfully derogate from his grant to the purchaser. *British Leyland Motor Corp. v. Armstrong Pats. Co.*, [1986] 1 All Eng. Rep. 852 (H.L.) (judgment of Lord Templeman) (holding that customer has right to replace copyrighted part of motor car). *AMP, Inc. v. United States*, 389 F.2d 448, 452-54 (Ct. Cl.), *cert. denied*, 391 U.S. 964 (1968), relies on three formulations of the applicable legal theory to hold that "plaintiff is estopped from denying the Government the use of this tool." The court held that the plaintiff's conduct created a license implied in law by "legal estoppel" and the plaintiff would not be heard to derogate from its grant.

his legal monopoly to exercise control over the purchaser's disposition and use of the product sold, so that the product sold to the purchaser has "passed beyond the scope" of the seller's statutory monopoly.¹² The rationale here is that it is inconsistent with the purchaser's ownership of the property that he bought from the seller, to allow the seller to continue to control how that property shall be used.¹³ Although it is not always free from any doubt on which of the foregoing lines of authority a particular decision rests, the result is

¹²E.g., *Motion Picture Patents Co. v. Universal Film Mfg. Co.*, 243 U.S. 502, 516 (1917) (patentee may not restrict purchaser's use of film projector to films approved by patentee, since "the right to vend is exhausted by a single unconditional sale, the article sold being thereby carried outside the monopoly of the patent law and rendered free of every restriction which the vendor may attempt to put on it"). See also *United States v. General Elec. Co.*, 272 U.S. 476, 489 (1926) (it is "well settled" that "where a patentee makes the patented article, and sells it, he can exercise no further control over what the purchaser may do with the article after his purchase. It has passed beyond the scope of the patentee's rights.").

For similar decisions under the copyright laws, see, e.g., *C.M. Paula Co. v. Logan*, 355 F. Supp. 189, 192 (N.D. Tex. 1973) (the copyright law gives a copyright owner "no further right of control over the use or disposition of the individual copies of the work once he has sold or otherwise disposed of them"); *United States v. Wells*, 176 F. Supp. 630, 633 (S.D. Tex. 1959) (the "statutory monopoly, having been exhausted by exercise of the power of sale, is extinguished; . . . that copy is no longer under the copyright law insofar as the purchaser's right is concerned"). See also, to the same effect, *Blazon, Inc. v. De Luxe Games Corp.*, 268 F. Supp. 416, 433 (S.D.N.Y. 1965); *Burke & Van Heusen, Inc. v. Arrow Drug*, 233 F. Supp. 881, 882 (E.D. Pa. 1964).

¹³*Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 351 (1908) (copyright owner has no right "to qualify the title of a future purchaser" by restrictive notice). The most recent decision of this Court so holding is *Wilbur-Ellis Co. v. Kuther*, 377 U.S. 422 (1964). In that case this Court held that, because the respondent had sold its patented canning machines "outright" (as respondent did here, JA 33), upon purchasing them the petitioner automatically acquired an unlimited right to use them for whatever type of cans it wanted to process and the respondent had no right or power to limit the petitioner's use to particular sizes of can (*id.* at 425).

nonetheless the same whichever rationale the court applies: The purchaser is fully entitled to use the product purchased, at least for its ordinary and customary purposes, and is not liable to the seller as an infringer for doing so.

Federal courts of appeal have passed on the right to the specific kind of use involved in this case — performance use of copies of copyrighted products sold by (or by authority of) the copyright owner — five times before the Fourth Circuit's ruling below, each previous time in the context of motion picture films.¹⁴ All of the decisions support Red Baron's contention that Taito has no right to prevent Red Baron from using these boards for performance when (as here) that is their only practical purpose. In *Universal Film Mfg. Co. v. Copperman*, 218 F. 577 (2d Cir.), *cert. denied*, 235 U.S. 704 (1914), the Second Circuit held that a copyright owner's sale of a print of a motion picture film carried with it and conferred on the purchaser and subsequent purchasers from it the right to perform the copyrighted motion picture print publicly in theaters. The Second Circuit reaffirmed the principle of the *Copperman* decision in *United Artists Television, Inc. v. Fortnightly Corp.*, 377 F.2d 872, 882 (2d Cir. 1967), *rev'd on other grounds*, 392 U.S. 390 (1968),¹⁵ stating that a copyright owner's sale of a print of a copyrighted motion picture "conveys the right to perform it in public for profit." The decision below thus squarely conflicts with the Second Circuit's *Copperman* and *Fortnightly* decisions, on indistinguishable facts.

¹⁴A motion picture, like a video game, is classified as an audio-visual work for purposes of the copyright laws. 17 U.S.C. § 101 (definitions of "audiovisual work" and "motion picture"). The definition in § 101 of "public performance" as a sequential showing of images, used in the case at bar, applies exclusively to motion pictures, video games, and other audiovisual works.

¹⁵*Fortnightly* was reversed in this Court on the ground that the challenged conduct did not constitute "performance."

The Ninth Circuit deferred to *Copperman* in *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100 (9th Cir.), *cert. denied*, 364 U.S. 882 (1960). In that case, however, the copyright owner's conduct did not estop it from asserting the copyright or otherwise preclude its copyright infringement suit. The copyright owner licensed a third party to manufacture film prints for sale only to the "non-theatrical" market. The third party sold to the defendant Hampton, who exhibited the films to the public in his theater over the objections of the plaintiff copyright owner. The Ninth Circuit accepted the rule of the *Copperman* case, but held that the rule did not apply to Hampton's case because the copyright owner had not sold the prints outright to Hampton. Instead, a third party with only "non-theatrical" rights had sold the prints to Hampton, and he took the prints subject to the limitation (*id.* at 103). The Ninth Circuit thus recognized in the *Hampton* case that a sale outright by the copyright owner (which occurred in the instant case) will preclude his infringement suit against public performance use of the sold copy, but where the facts of the cases do not involve such an outright sale (as they did not in *Hampton*) the copyright owner will not be precluded.

Finally, two decisions in the Third Circuit, on which the court below relied, do not support its judgment. *Columbia Pictures Industries, Inc. v. Aveco, Inc.*, 800 F.2d 59 (3d Cir. 1986); *Columbia Pictures Industries, Inc. v. Redd Horne Inc.*, 749 F.2d 154 (3d Cir. 1984). In both cases, the defendants used home videotape cassette copies of motion pictures for uses that the court considered to be public performances of the copyrighted works. The Third Circuit did not consider whether there was an estoppel or implied license because of the relation between the actual use (commercial use) and the use (home use) in contemplation of which the product was sold, as the Ninth Circuit had in the *Hampton* case. The Third Circuit did not even mention the previous decisions of the Se-

cond and Ninth Circuits. Instead, the Third Circuit simply held that under section 109(a) of the Copyright Act (17 U.S.C. § 109(a)), on which the defendants relied, the copyright owner's sale of the copies did not extinguish its public performance rights. While the two Third Circuit decisions conflict with the "exhaustion" line of authority mentioned earlier, they are nonetheless fully consistent with the "estoppel" line of authority. Certainly, one who sells home videotape cassettes, which are ordinarily and customarily used in the privacy of the purchaser's home, cannot be said thereby to be estopped from challenging or to have impliedly licensed use of the videotapes for the public performance market.

In the instant case, the Fourth Circuit adopted the reasoning of the Third Circuit in the home videotape cases. The lower court held that section 109's first-sale right did not apply to public performance of video games, because section 109(a) opens with the words "notwithstanding the provisions of section 106(3)," which is a reference to the exclusive right of copyright owners to distribute copies. According to the Fourth Circuit below and the two Third Circuit opinions, the "notwithstanding" clause is an explicit congressional limitation on the scope of section 109, rather than simply being words of illustration or exemplification, so that only distribution rights are extinguished by a sale and performance rights are not extinguished. We submit that there is no support for treating "notwithstanding" clauses in statutes as express words of limitation, and the use of that term in section 109 provides no proper basis for overturning a century of case law¹⁶ that

¹⁶See, e.g., *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339 (1908); *Adams v. Burke*, 84 U.S. (17 Wall.) 453 (1873). Moreover, the legislative history of the codification of the exhaustion doctrine into the copyright statute directly conflicts with the Fourth Circuit's interpretation. See *Platt & Munk Co. v. Republic Graphics, Inc.*, 315 F.2d 847, 852-53 (2d Cir. 1963) (quoting and explaining legislative history as opposing "any control whatever" by copyright owner over article sold). *Platt & Munk* dealt with the 1909 Act, but the 1976 Act did not purport to modify this aspect of the 1909 Act.

a sale by the owner of a patent or copyright extinguishes the seller's monopoly rights over the sold article (the second line of authority discussed previously, text at notes 12-13, *supra*).

But even disregarding every "exhaustion" decision of this and lower courts, the interpretation of "notwithstanding" given by the Third and Fourth Circuits, whether correct or erroneous, has no bearing on the separate line of case authority concerning estoppel, implied license, and similar legal preclusion. The judgment below is clearly in conflict with that line of authority, which does not rest on section 109. It rests on general principles of equity and intellectual property law, long ago established by case law rather than by statute (see notes 9-11, *supra*). There is no suggestion in the legislative history of the 1976 Copyright Act that Congress has ever sought to overturn this body of judicially evolved law. The court below did not even attempt to explain away this body of law. The Fourth Circuit mistakenly found it inapplicable for factual reasons (the supposed, but nonexistent, restrictive notice), in its first opinion (App. E), and then, after the petition for rehearing, the Fourth Circuit retracted the factual support for that conclusion in its second opinion (App. F).

The decision of the Fourth Circuit in the instant case is the first reported instance of a court holding that it is copyright infringement to use, for its customary purpose (indeed, for what the court found to be its only useful purpose), a copy of the copyrighted work bought from the copyright owner. That is so whether the use is performance use or any other use. To our knowledge, there is no patent case so holding, either. Indeed, the nation's specialized intellectual property court, the Federal Circuit, has expressly held that a license is implied as a matter of law when a patent owner sells a machine useful only in practicing the seller's patent. *Met-Coil Systems, Inc. v. Korners Unlimited, Inc.*, 803 F.2d 684,

685-86, 687 (Fed. Cir. 1986); see *United States v. Univis Lens Co.*, 316 U.S. 241, 249-51 (1942) (sale of product useful only in practicing patent "is a relinquishment of the patent monopoly with respect to the article sold").¹⁷

This Court should grant certiorari to correct the error of the Fourth Circuit, to resolve the conflict of authority among federal appellate courts, and to reestablish the principle that purchasers of products sold by one holding an intellectual property monopoly are entitled to use the products for their ordinary, customary, or only useful purposes, without liability to the seller for infringement.

C. THE HOLDING BELOW THAT PLAYING A VIDEO GAME IN A VIDEO GAME ARCADE IS AN INFRINGING PUBLIC PERFORMANCE, FOR PURPOSES OF THE COPYRIGHT ACT, IRRATIONALLY EXTENDS THE REACH OF THE COPYRIGHT LAWS BEYOND CONGRESS' INTENT.

The court below held that when a person goes into Red Baron's video game arcade, puts a quarter into the coin slot of a video game machine, and plays a video game that is subject to copyright, the person engages in a public performance of the copyrighted video game. The court then went on to hold that where the copyright owner has not issued a license for this so-called public performance, the conduct is copyright infringement, making all those involved liable to the copyright

¹⁷That is simply the other side of the coin of the principle, which this Court has recognized in patent and copyright cases alike, that fairness to patent and copyright owners dictates that one who knowingly sells a product suited only for practicing the subject matter of a patent or copyright, and unsuited for any non-infringing use, is liable as a contributory infringer. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 441-42 (1984).

owner as provided under the Copyright Act.¹⁸ It is inconceivable, however, that Congress intended or would have desired to subject video game playing and the millions of video game players in the United States to this regulatory system. Because the lower court's holding that playing video games in arcades is public performance is a necessary premise of its judgment of copyright infringement, its error in so holding is an alternative reason to reverse the judgment below.

The Fourth Circuit concluded that video game playing is public performance, by a mechanical and erroneous chain of reasoning that is akin to determining how to define a phrase such as "stud poker" by looking up the separate words "stud" and "poker" in a dictionary, and then combining the two definitions. First, the court ascertained how the Act defined "performance" of an audiovisual work. Second, the court looked to the definition of "publicly." Then, the court mechanically combined the two definitions and concluded that the facts about video game playing in Red Baron's arcades fall within the borders of the court's simplistic definition of "public" plus

¹⁸In theory, the liability potentially includes all of the following: temporary and final injunctions against the conduct (17 U.S.C. § 502(a)); impoundment and destruction of the equipment (§ 503); actual damages and also any profits attributable to the infringement (§ 504(b)); statutory damages of up to \$100,000 (§ 504(c)); attorney fees (§ 505); imprisonment and fine (§ 506(a)). See *Sony, supra*, 464 U.S. at 433-34.

The millions of video game players and the thousands of proprietors of arcades are each liable for the copyright infringements, here, since each of them engages in or is vicariously liable for the video game playing conduct that the court below defined as public performance copyright infringement. There is no requirement of intent for civil copyright infringement liability. E.g., *Buck v. Jewell La Salle Realty Co.*, 283 U.S. 191, 198 (1923); *Costello Pub. Co. v. Rotelle*, 670 F.2d 1035, 1044 (D.C. Cir. 1981).

“performance” because video game arcades are open to the public.¹⁹

The Fourth Circuit erred in following this rote procedure, instead of applying a rule of reason to the statute and considering the totality of what occurs when young persons play video games at arcades with their friends. They do not engage in public exhibitions akin to traditional types of public performance, such as theatrical performances. They simply engage in social behavior, like singing “Happy Birthday” (or any other copyrighted song) at a party in a restaurant or playing darts in a bar. It defies common sense to suggest that Congress intended to define video game playing as public performance for purposes of the 1976 Copyright Act and copyright infringement liability, or that Congress would have so intended if video game technology had been in common use when Congress passed that Act.²⁰

¹⁹The Fourth Circuit *sua sponte* took judicial notice of what it considered the facts concerning the playing of video games in the petitioner’s arcades, since there was no record made on this point before the trial court. In moving for summary judgment below, Taito proffered no evidence to show that Red Baron was engaged in a public performance, and the record contains no such evidence. Red Baron resisted Taito’s motion for summary judgment by objecting to the absence of any record evidence showing that Red Baron was engaged in public performance, and Red Baron contended that the absence of such a factual showing barred entry of summary judgment against it (JA 257). The trial court agreed (JA 375, n.5; 406-07, 409-10). As movant for summary judgment, it was Taito’s obligation to put in affidavit evidence for each element of a violation, and certainly for each element that was placed into factual dispute. F.R.Civ.P. 56.

²⁰See *Sony*, *supra*, 464 U.S. at 431, 456 (use of VCRs not copyright infringement); *Teleprompter Corp. v. CBS, Inc.*, 415 U.S. 394 (1974) (use of CATV not performance); *Fortnightly Corp. v. United Artists Television, Inc.*, 392 U.S. 390 (1968) (same). Each of these decisions interpreted the Copyright Act as not including new technologies that did not exist and were not considered by Congress when it passed the statute.

This Court has adopted a much less expansive interpretation of performance. In *Twentieth City Music Corp. v. Aiken*, 422 U.S. 151, 155 (1975), Mr. Justice Stewart observed, "No license is required by the Copyright Act . . . to sing a copyrighted lyric in the shower." See also *id.* n.4 (singing for one's own gratification would not constitute a "performance" for copyright infringement purposes, "nor would the fact of some other person being in the room at the time of such singing make it so"). Yet, to the Fourth Circuit, if the shower is located in a YMCA or a high school gymnasium then the singer necessarily engages in an unlicensed public performance and is perforce a copyright infringer. There is no suggestion in the legislative history of the 1976 Copyright Act that Congress desired to legislate such absurd results, desired to overrule the *Aiken* decision of this Court, or desired to authorize the Fourth Circuit's interpretation below of the copyright laws that conflicts with *Aiken*.

The lower court erred in assuming that Congress wanted to extend the prohibitions and remedies of the Copyright Act to video game playing.²¹ Review by this Court is appropriate to confine such expansive readings of the Copyright Act to the Act's proper scope; and to remind the lower courts that it is for Congress to determine whether to expand the copyright laws to reach new technologies, *Sony, supra*, 464 U.S. at 431, and for the courts to be circumspect until Congress has plainly marked the course. *Id.*

²¹Although other courts of appeals have held that video games are copyrightable and that manufacture and sale of unauthorized copies are copyright infringements, none until now has held *playing* a video game to be a public performance or other copyright infringement.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari should be granted.

RICHARD H. STERN
1300 19th Street, N.W.
Washington, D.C. 20036
(202) 659-1385

Counsel of Record for Petitioners

December 4, 1989



APPENDIX A

STATUTORY PROVISIONS INVOLVED

17 U.S.C. § 101. Definitions

As used in this title, the following terms and their variant forms mean the following:

* * * * *

“Audiovisual works” are works that consist of a series of related images which are intrinsically intended to be shown by the use of machines or devices such as projectors, viewers, or electronic equipment, together with accompanying sounds, if any, regardless of the nature of the material objects, such as films or tapes, in which the works are embodied.

* * * * *

To “display” a work means to show a copy of it, either directly or by means of a film, slide, television image, or any other device or process or, in the case of a motion picture or other audiovisual work, to show individual images nonsequentially.

* * * * *

To “perform” a work means to recite, render, play, dance, or act it, either directly or by means of any device or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible.

* * * * *

To perform or display a work “publicly” means—

(1) to perform or display it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered * * *.

17 U.S.C. § 106. Exclusive rights in copyrighted works

Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly, and

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

17 U.S.C. § 109. Limitations on exclusive rights: Effect of transfer of particular copy or phonorecord

(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

**APPENDIX B
DISTRICT COURT OPINION**

**IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA**

Alexandria Division

CIVIL ACTION NO. 88-0156-A

**RED BARON - FRANKLIN PARK, INC.,
FUN FACTORIES OF OHIO,**
Plaintiff,

v.

**TAITO CORPORATION, TAITO AMERICA
CORPORATION and AMERICAN AMUSEMENT
MACHINE ASSOCIATION,**
Defendants.

Filed: August 29, 1989.

MEMORANDUM OPINION

The court has before it Defendant Taito America Corporation's Motion for Partial Summary Judgment of Copyright Infringement.¹ In response, Red Baron cross-moves for partial summary judgment dismissing Taito America's counterclaim for copyright infringement.

¹Count I of Taito America's Counterclaim entitled "Copyright Infringement," states that:

"Plaintiff-counterdefendants' unauthorized importation and use of said copyrighted audio-visual materials constitutes willful violation and infringement of said copyrighted materials under 17 U.S.C. § 602(a)."

I

FACTS

Defendant Taito Corporation is a Japanese business corporation which owns the copyright in "Double Dragon", an original audiovisual work. Double Dragon is a video arcade game which is popular in many areas of this country. Each game is fitted with a circuit board. When a circuit board is charged with an electric current it causes images to appear on the game's monitor and sounds to emanate from the speakers.

Taito America Corporation ("Taito America"), a Delaware corporation and wholly-owned subsidiary of Taito Corporation, sells coin-operated video arcade machines and conversion kits. Taito Corporation granted an exclusive license to Taito America in the United States copyright² for Double Dragon.

Plaintiffs, Red Baron - Franklin Park, Inc. and Fun Factories of Ohio, operate video game arcades for use by the public. At these arcades, the Double Dragon games, fitted with parallel or gray market circuit boards, are available for play.

A gray market good is a foreign manufactured good, protected by a valid U.S. copyright held by the foreign manufacturer, that is imported without the consent of the copyright holder. A gray market is created when a price difference develops between the cost of goods in the foreign market and their cost in the United States. Thus, a gray market import is usually available in the United States for less than products imported and sold pursuant to the copyright holder's authorization.³

²Registration No. PA 327-710.

³*Sebastian Int'l, Inc. v. Consumer Contact (PTY) Ltd.*, 664 F. Supp. 909, 910 (D.N.J. 1987), *vacated and remanded*, 847 F.2d 1093 (3d Cir. 1988).

Plaintiffs imported Double Dragon circuit boards which were originally manufactured, marketed and sold in Japan by Taito Corporation to third-parties. These boards were subsequently resold, either directly or indirectly, to the plaintiffs. It appears that the plaintiffs purchased the boards at a price lower than the price at which the boards are available in the United States. Taito America challenges the plaintiffs' unauthorized importation of the boards into the country as a violation of domestic copyright laws.

II

LEGAL ANALYSIS

The copyright clause of the United States Constitution grants Congress the power "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."⁴ The Supreme Court has recognized that:

[this] limited grant is a means by which an important public purpose may be achieved. It is intended to motivate the creative activity of authors and inventors by the provision of a special reward, and to allow the public access to the products of their genius after the limited period of exclusive control has expired.

Sony Corp. v. Universal City Studios, Inc., 464 U.S. 417, 429 (1984). This constitutional power is predicated on the theory that "[t]he monopoly created by copyright thus rewards the individual author in order to benefit the public." *Id.* at 477.

The Copyright Revision Act of 1976, 17 U.S.C. §§ 101-914 ("the Copyright Act"), is the statutory embodiment of this

⁴U.S. Const. art. I, § 8, cl. 8.

legislative power. The sections of the Copyright Act critical to this court's decision are 106, 109 and 602. Section 106 of the Copyright Act confers a bundle of exclusive rights on copyright owner.⁵ Of these, Taito America bases its infringement action primarily on the section 106(3) right to distribute copies of a copyrighted work to the public.⁶

Other provisions in the Copyright Act provide copyright holders with specific protections. Relevant to the instant motion are the importation rights codified in 17 U.S.C. § 602(a) which provides, in pertinent part that:

Importation into the United States, without the authority of the owner of copyright under this title, of copies or phonorecords of a work that have been acquired outside the United States is an infringement of the exclusive right to distribute copies of phonorecords under section 106, actionable under section 501.

The thrust of the alleged infringement in this case is that the plaintiffs' importation of the "gray market" Double Dragon boards into this country constitutes a violation of Taito America's section 602(a) rights.

In response, plaintiffs argue that the application of section 602(a) to the disputed goods is limited by the "first sale" doctrine. The doctrine limits the distribution rights of a copyright holder by extinguishing those rights when copies of a work

⁵The defendants assert that the plaintiffs infringed the following rights outlined in section 106: "(3) to distribute copies . . . of the copyrighted work to the public . . . (4) . . . to perform the copyrighted work publicly; and (5) . . . to display the [individual images] of the copyrighted work publicly."

⁶Defendant Taito America's assertion of infringement is within the scope of the Copyright Act since it is well settled that video game circuit boards are given copyright protection. *See Midway Mfg. Co. v. Artic Int'l, Inc.*, 704 F.2d 1009, 1012 (7th Cir. 1983).

that have been legally manufactured with the copyright owner's consent are subsequently sold. *Bobbs-Merrill Co. v. Straus*, 210 U.S. 339, 350 (1908). The economic theory on which the doctrine is based suggests that once there has been "a disposition of the copyrighted article . . . it may fairly be said that the copyright proprietor has received his reward for its use." *Burke & Van Heusen, Inc. v. Arrow Drug, Inc.*, 233 F. Supp. 881, 884 (E.D. Pa. 1964). Thus, the sale of a good by a copyright holder not only provides him the just reward for that particular sale but also for any future sales. The doctrine is codified in 17 U.S.C. § 109(a) which states:

Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of this possession of that copy or phonorecord.

The issue facing the court is the interplay between the first sale doctrine of section 109(a) and the importation right granted to a copyright holder in section 602(a). The narrow inquiry this court undertakes is to determine whether these seemingly contradictory provisions can be reconciled and read together in a logical and consistent manner.

Sections 602(a) and 109(a) appear to conflict since it is unclear whether a copyright holder who has sold his goods might still be able to assert 602(a) rights to bar their importation. This court, however, finds no inconsistency between the sections and relies on the Third Circuit's recent interpretation of the relation between these sections. In *Sebastian Int'l, Inc. v. Consumer Contact (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988) the court stated that "the two provisions were intended to function interdependently and may be read in harmony with each other." *Id.* at 1097. The sections are reconciled by reasoning that:

[S]ection 602(a) does not purport to create a right in addition to those conferred by section 106(3), but states that unauthorized importation is an infringement of "the exclusive [section 106(a)] right to distribute copies." Because that exclusive right is specifically limited by the first sale provisions of § 109(a), its ownership has cancelled the distribution right to a copy, the right does not survive so as to be infringed by importation.

Id. at 1099.

Defendant Taito America attempts to distinguish the facts in the *Sebastian* case from the situation before this court. The case at bar involves the assertion of copyright infringement based on the importation rights of a domestic corporation in goods manufactured and sold overseas by its foreign parent corporation. In contrast, the *Sebastian* court addressed the rights of a domestic corporation in goods manufactured in the United States, shipped out of the country and reimported.⁷ The Third Circuit held that the first sale doctrine barred the domestic corporation from asserting any importation rights in the products. *Id.* at 1099. The factual differences between the matter before the *Sebastian* court and the case at bar should not lead to a dissimilar result.

Taito America, relying on the district court decisions in *Columbia Broadcasting Sys. v. Scorpio Music Distrib.*, 569 F. Supp. 47 (E.D. Pa. 1983), *aff'd without opinion*, 738 F.2d 424 (3d Cir. 1984) and *Nintendo of America, Inc. v. Elcon In-*

⁷In the *Sebastian* case, a California corporation, Sebastian International, entered into a contract with Consumer Contacts in which Consumer Contacts agreed to distribute beauty products exclusively in South Africa. Once Sebastian shipped the products to South Africa, Consumer Contacts then reshipped them back to the United States for distribution. Sebastian brought an action asserting an infringement of its importation rights under the Copyright Act.

dus., 564 F. Supp. 937 (E.D. Mich. 1982), asserts that its importation rights override the first sale doctrine. The *Scorpio* court interpreted the "lawfully made under this title" language of section 109(a) to mean that the first sale doctrine was inapplicable to goods which were both manufactured and sold in a foreign country. *Scorpio*, 569 F. Supp. at 49. The court held that a foreign copyright holder can still assert an infringement of its importation rights after making an overseas sale.

The cases relied on by Taito America have been criticized and questioned.⁸ The Third Circuit, while not explicitly overruling the *Scorpio* court's rationale, "confess[ed] some uneasiness with this construction of 'lawfully made' because it does not fit comfortably with the scheme of the Copyright Act." *Sebastian Int'l*, 847 F.2d at 1098 n.1. In *dicta*, the *Sebastian* Court argued that when the place of manufacture is an important factor, Congress expressly makes it clear in the statute. *Id.*⁹ Since sections 106, 109(a) and 602(a) contain no reference to place of manufacture, it is irrelevant to an analysis of these sections. The sale of a good protected by a U.S. copyright should extinguish the right of the copyright holder to assert importation rights in the good regardless of where the good is manufactured and sold.

The court believes that its holding is a logical and important extension of the *Sebastian* decision. To rule otherwise would provide greater copyright protection to foreign companies manufacturing goods outside the United States, such as Taito Corporation, than the protections given to companies making goods in the United States, like the plaintiff in the *Sebastian* case. This court finds it difficult to accept that Congress would

⁸See *Cosmair, Inc. v. Dynamite Enterprises, Inc.*, No. 85-0651, slip op. (S.D. Fla. Apr. 9, 1985) ("The Court would note that it has some doubts as to the validity of the reasoning about the relation between § 602(a) and § 109(a) in *Scorpio*.")

⁹See 17 U.S.C. § 601(c) (foreign manufacturing requirement).

have given foreign corporations greater protection under the copyright laws than it has provided to domestic copyright holders.

An appropriate Order shall issue.

/s/ James C. Cacheris
United States District Judge

August 29, 1988
Alexandria, Virginia

APPENDIX C
DISTRICT COURT JUDGMENT

Filed: August 29, 1988.

ORDER

In accordance with the accompanying Memorandum Opinion, it is ORDERED:

(1) that the Defendant Taito America Corporation's Motion for Partial Summary Judgment of Copyright Infringement is DENIED;

(2) that the Plaintiffs' Cross-motion for partial summary judgment dismissing Taito America's counterclaim for copyright infringement is GRANTED;

(3) that the Defendants Taito America Corporation and Taito Corporation are ENJOINED from taking any action pursuant to the Copyright Revision Act of 1976, 17 U.S.C. § 101 *et seq.*, to interfere with the Plaintiffs' importation, use or resale of Double Dragon printed circuit boards that are lawfully imported or used;

(4) that the Clerk shall forward copies of this Order together with the Memorandum Opinion to all counsel of record.

/s/ James C. Cacheris
United States District Judge

Dated: August 29, 1988.
Alexandria, Virginia

APPENDIX D

**DISTRICT COURT ORDER DENYING MOTION
TO AMEND JUDGMENT**

ORDER

For reasons stated in open court, it is accordingly
ORDERED:

(1) that the Defendants Taito Corporation and Taito America Corporation's Motion to Alter or Amend Judgment Pursuant to Fed. R. Civ. P. 59(e) is DENIED;

(2) that the Clerk shall forward copies of this Order to all counsel of record.

/s/ James C. Cacheris
United States District Judge

September 30, 1988
Alexandria, Virginia

APPENDIX E

UNITED STATES COURT OF APPEALS FOR THE FOURTH CIRCUIT

No. 88-1368

RED BARON - FRANKLIN PARK, INC.;
FUN FACTORIES OF OHIO, INC

versus

Plaintiffs-Appellees

TAITO CORPORATION; TAITO AMERICA
CORPORATION

Defendants-Appellants

Appeal from the United States District Court for the
Eastern District of Virginia, at Alexandria.
James C. Cacheris, District Judge. (CA-88-156).

Argued: May 10, 1989

Decided: July 18, 1989

WINTER, Circuit Judge:

As part of more extensive federal and state antitrust litigation which is not before us, Red Baron - Franklin Park, Inc. and Fun Factories of Ohio, Inc. (collectively "Red Baron"), as plaintiffs, and Taito Corporation and Taito America Corporation (sometimes collectively "Taito" and sometimes "Taito America"), as defendants, by petition for declaratory judgment litigated the question of whether Red Baron in-

fringed Taito's copyright in a video game known as "Double Dragon," when Red Baron imported the game, and installed it in its video arcades for use by the public for profit. The district court ruled that Red Baron did not infringe and Taito appeals.

We reverse and remand for further proceedings.

I.

Taito is a Japanese corporation engaged in the business of selling electronic video games, including electronic printed circuit boards which embody games and are used in coin-operated video game units. Video games "can roughly be described as computers programmed to create on a television screen cartoons in which some of the action is controlled by the players." *Stern Electronics, Inc. v. Kaufman*, 669 F.2d 852, 853 (2 Cir. 1982). Double Dragon is such a game. A video game unit consists of an electronic printed circuit board, a television monitor, a cabinet and a coin mechanism. When the component parts are connected and an electric current, activated by the insertion of the proper coin, run through the machinery, the game's audiovisual images appear on the television screen.

Taito has registered Double Dragon in the United States Copyright Office — Registration No. PA 327-170, issued June 26, 1987 — and it has granted its wholly owned subsidiary, Taito America, an exclusive United States license in all of its copyright rights in Double Dragon.

Red Baron operates arcades where it makes available to the public for play upon payment of a set fee various video game units, including units fitted with Double Dragon circuit boards. Red Baron has no license from Taito or Taito America to use the Double Dragon circuit boards for profit nor did it obtain these circuit boards from Taito or Taito America. Rather, it

obtained them in the "parallel" or "gray market," which is to say, that it purchased used circuit boards abroad and imported them without Taito's consent, at a cost less than the cost of a new unit purchased from Taito in the United States.¹ Taito had, of course, originally sold the circuit boards obtained by Red Baron in Japan and had not purported to retain any right to control their resale. However, each of these boards, when put into play, exhibited the following restrictive notice:

This game is for use in Japan only. Sales, exports, or operation outside this territory may violate international copyright and trademark law and the violator subject to severe penalties.

In the district court, it was Taito's legal theory that it had a valid copyright in the United States for all rights in Double Dragon, including the rights of distribution and public performance, that Red Baron had not obtained a license or other permission to exercise any of those rights, and that Red Baron was therefore infringing Taito's copyright rights when it imported Double Dragon circuit boards into the United States and when it installed the boards in units in its video arcades and made them available to the public for play upon payment of a fee. The district court, however, rejected this theory of the case. It ruled that the "first sale" doctrine, codified in 17 U.S.C. § 109(a)², was a limitation on Taito's right to distrib-

¹Taito has apparently adopted the policy of marketing Double Dragon in the United States only as a complete video game unit.

²§ 109. Limitations on Exclusive rights: Effect of transfer of particular copy or phonorecord

(a) Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, or any person authorized by such owner, is entitled, without the authority of the copyright owner, to sell or otherwise dispose of the possession of that copy or phonorecord.

ute" the copyrighted work publicly under 17 U.S.C. § 106(3).³ While it did not discuss extensively Taito's right to "perform" the copyrighted work pursuant to 17 U.S.C. § 106(4), it apparently applied the first sale doctrine to this right also. According to the district court's ruling, Taito's initial sale in Japan of the circuit boards for Double Dragon extinguished all rights that it had under the copyright laws, including the right of public performance, so that Red Baron did not infringe.

II.

In appealing, Taito does not contest the correctness of the district court's ruling with respect to Red Baron's right to purchase, import and even to sell Double Dragon circuit boards without Taito's consent. In effect, it concedes for the pur-

³§ 106. Exclusive rights in copyrighted works

Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

- (1) to reproduce the copyrighted work in copies or phonorecords;
- (2) to prepare derivative works based upon the copyrighted work;
- (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease or lending;
- (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and
- (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

While 17 U.S.C. §§ 107-118 contain numerous exceptions and limitations on the broad rights granted in § 106, only the first sale doctrine of § 109(a) is relevant to this case.

poses of this appeal that the first sale doctrine gives Red Baron that right. It argues vigorously, however, that it has a separate and distinct right to "perform" Double Dragon, that it has not conferred this right on Red Baron and that, as a consequence, the latter is infringing Taito's copyright by its activities in making use of the circuit boards available to the public for a fee. This argument requires us to consider first whether Red Baron's use of Double Dragon constitutes a public performance within the meaning of § 106(4), and if so to consider next whether the first sale doctrine has any application to the performance right as distinguished from actual ownership of the copyrighted work. We deal with these questions seriatim.

A. Public Performance.

We begin with the proposition that the Double Dragon video game is an "audiovisual work" as defined by 17 U.S.C. § 101. To the extent pertinent, the statute provides that "audiovisual works" are works which "consist of a series of related images which are intrinsically intended to be shown by the use of machines or devices . . . together with accompanying sounds, if any, regardless of the nature of the material objects . . . in which the works are embodied." In 1986 we concluded, in agreement with other courts of appeals, that video games are copyrightable as audiovisual works, *see* M. Kramer Mfg. Co. v. Andrews, 782 F.2d 421, 435-365 (4 Cir. 1986); *accord* United States v. Goss, 803 F.2d 638, 641 (11 Cir. 1986); Midway Mfg. Co. v. Artic Int'l, Inc., 704 F.2d 12009, 1012 (7 Cir.), *cert. denied*, 464 U.S. 823 (1983); Williams Electronics, Inc. v. Artic Int'l, Inc., 685 F.2d 870 (3 Cir. 1982); Stern Electronics, Inc. v. Kaufman, 669 F.2d 852, 857 (2 Cir. 1982), and we abide by that conclusion today.

To "perform" a work and to perform it "publicly" are also defined by the Copyright Act, 17 U.S.C. § 101. "Perform" is defined to mean:

to recite, render, play, dance, or act [a work], either directly or by means of any device or process or, in the case of a motion picture or other audiovisual work, to show its images in any sequence or to make the sounds accompanying it audible.

The definition of a "public" performance is as follows:

To perform . . . a work 'publicly' means -

- (1) to perform . . . it at a place open to the public or at any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered

When we apply these definitions to Red Baron's conduct of its business, we conclude that Red Baron publicly performed Double Dragon. When a video game is activated by the insertion of a proper coin, the television monitor displays a series of images and the loudspeaker makes audible their accompanying sounds. See *Williams Electronics*, 685 F.2d at 874 ("there is always a repetitive sequence of a substantial portion of the sights and sounds of the game"); *Stern Electronics*, 669 F.2d at 856. The exhibition of its images in sequence constitutes a "performance" of an audiovisual work. Indeed, it is the sequential showing of its images that distinguishes the "performance" of an audiovisual work from its "display," which is defined as a nonsequential showing of individual images. 17 U.S.C. § 101; see H.R. Rep. 94-1476, 94th Cong., 2d Sess. 64, reprinted in 1976 U.S. Code Cong. & Admin. News 5659, 5677; 2 Nimmer & Nimmer, *Nimmer on Copyright* §§ 8.14[C] at 8-136.3 - 137, 8.20[A] at 8-246.6 (1988). True, the exact order of images will vary somewhat each time a video game is played depending on the skill of the player, but there will always be a *sequence* of images. As the House Report accompanying the Copyright Act states, although "[t]he showing of portions" of an audiovisual work "must . . . be sequential

to constitute a 'performance' rather than a 'display' . . . no particular order need be maintained." H.R. Rep. No. 94-1476 at 64, *reprinted in* 1976 U.S. Code Cong. & Admin. News at 5677; *see also* 2 *Nimmer on Copyright* § 8.14[C] at 8-137 n.18. We therefore conclude that the operation of a video game constitutes a performance as that term is defined in § 101.

We also think that the performance of a video game in a Red Baron arcade qualifies as a "public" performance. Under the Act, as we have noted, to perform a work "'publicly' means among other things, 'to perform . . . it at a place open to the public.'" 17 U.S.C. § 101. There is no real dispute here that Red Baron's video arcades are open to the public; of course, Red Baron's aim is to attract as many members of the public to its arcades as possible. The use of a Double Dragon unit may be viewed by the player, any persons accompanying him, and any other interested patrons of the video arcade.

Thus our conclusion is that Red Baron caused the public performance of Double Dragon.

B. The First Sale Doctrine and the Performance Right.

Red Baron's contention that the first sale doctrine is applicable to the performance right has a certain superficial, logical appeal in this case. Printed circuit boards embodying Double Dragon are not serviceable in and of themselves. They are functional only when they are used in combination with a television monitor, sound reproduction device and a console containing the controls to play the game. It is also a fair inference that there is only a very limited market for Double Dragon for home use. Rather, from the price and the complexity of the combination of items of equipment necessary to play the game, Taito may be fairly said to know that the

circuit boards have utility only in the hands of someone who plans to exploit them commercially.⁴ Thus, by selling the boards, so the argument runs, Taito must intend to transfer the performance right, or must become estopped to deny that result, or must waive its right to claim infringement.

There is some support for Red Baron's contention. In *Universal Film Mfg. Co. v. Copperman*, 218 F. 577 (2 Cir.), *cert. denied*, 235 U.S. 704 (1914), the Second Circuit held that a copyright owner's sale of a print of a motion picture film conferred on the purchaser and its successors in title to the print the right to perform the motion picture publicly in theatres. And in *United Artists Television, Inc. v. Fortnightly Corp.*, 377 F.2d 872, 882 (2 Cir. 1967), *rev'd on other grounds*, 392 U.S. 390 (1968), the Second Circuit stated that "a sale does not generally release other exclusive rights, such as the right to copy, although this Court has held that the sale of a motion picture print conveys the right to perform it in public for profit [citing *Copperman*]." See also *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100, 103 (9 Cir.), *cert. denied*, 364 U.S. 882 (1960) (discussing rule stated in *Copperman* but holding it inapplicable to facts of *Hampton* case).

It may well be that *Copperman* and *United Artists* are distinguishable from the instant case, as Taito argues. See 2 *Nimmer on Copyright* § 8.12[D] at 8-132.1 n.53 (arguing that first sale doctrine was not basis for *Copperman* court's holding with respect to performance right). In any event, from our examination and understanding of the Copyright Act and decisions of the Third Circuit, we are persuaded that the first sale doctrine does not apply to the performance right, that Taito America possesses and retains a valid copyright in the public performance of *Double Dragon* in the United States, that it

⁴As stated in the text, Taito did attempt to limit the performance right geographically to Japan.

has not granted a performance license to Red Baron and that the latter is thus guilty of copyright infringement.

We begin with the statute. Section 106 of Title 17, *see* n.3 *supra*, grants to the owner of a copyright five separate and distinct rights: (1) to reproduce the copyrighted work, (2) to prepare derivative works based on the copyrighted work, (3) to distribute copies of the copyrighted work to the public by sale, rental, etc., (4) to perform the copyrighted work publicly and (5) to display the copyrighted work publicly. By its very terms, the statute codifying the first sale doctrine, 127 U.S.C. § 109(a), *see* n.2 *supra*, is limited in its effect to the *distribution* of the copyrighted work. It prohibits the owner of the copyright in a work who has sold a copy of the work to another from preventing or restricting the transferee from a further sale or disposition of the possession of the copy. Thus, by its terms, § 109(a) has no application to the other four rights of a copyright owner, including the right to perform the work publicly. *See* H.R. Rep. No. 94-1476 at 79, *reprinted in* 1976 U.S. Code Cong. & Admin. News at 5693 (discussing interplay between §§ 109(a) and 202) ('the owner of the . . . copy . . . cannot . . . perform the copyrighted work publicly without the copyright owner's consent').

The limited application of § 109(a) has been fully recognized by the Third Circuit in two decisions that we find persuasive. The first case to be decided by the Third Circuit, *Columbia Pictures Industries, Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3 Cir. 1984), concerned the operators of video cassette stores which, in addition to renting and selling video cassettes — activities the legality of which was not challenged — also maintained booths where members of the public could view video cassettes upon payment of a fee. The operators had a license to distribute, but no license to perform publicly, from the copyright owner. When sued for infringement the operators

sought to defend their activities under the first sale doctrine. The contention, however, was rejected, the court holding that although the first sale doctrine “prevents the copyright owner from controlling the future transfer of a particular copy once its material ownership has been transferred,” *id.* at 159, “[t]he transfer of the video cassettes to the [operators] . . . did not result in the forfeiture or waiver of all of the exclusive rights found in section 106,” *id.* at 160, so that “[t]he copyright owner’s exclusive right ‘to perform the copyrighted work publicly’ ha[d] not been affected; only its distribution right as to the transferred copy ha[d] been circumscribed.” *Id.* (citations omitted).

In *Columbia Pictures Industries, Inc. v. Aveco, Inc.*, 800 F.2d 59 (3 Cir. 1986), the court again considered the rental of video cassettes by a proprietor which had obtained the right to distribute from the producers of the films, but, having obtained no performance right, nevertheless exhibited the cassettes in private viewing rooms for a fee. When sued for infringement, the proprietor asserted the first sale defense, but, again, the court soundly rejected it:

[E]ven assuming, *arguendo*, both a waiver by Producers of their Section 106(3) distribution rights and a valid transfer of ownership of the video cassette during the rental period, the first sale doctrine is nonetheless irrelevant. The rights protected by copyright are divisible and the waiver of one does not necessarily waive any of the others In particular, the transfer of ownership in a particular copy of a work does not affect Producers’ Section 106(4) exclusive rights to do and to authorize public performances It therefore cannot protect one who is infringing Producers’ Section 106(4) rights by the public performance of the copyrighted work.

Aveco, 800 F.2d at 64 (citing *Redd Horne*, 749 F.2d at 160;

United States v. Powell, 701 F.2d 70, 72 (8 Cir. 1983); and United States v. Moore, 604 F.2d 1228, 1232 (9 Cir. 1979)).

Other courts and commentators likewise agree that the first sale doctrine has no application to the rights of the owner of a copyright guaranteed by § 106, except the right of distribution. See *Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341, 1344 (9 Cir. 1988), *cert. denied* ____ U.S. ____ (1989); *Powell*, 701 F.2d at 72; 2 *Nimmer on Copyright* § 8.2[D] at 8-132; Leibowitz, *The Sequential Distribution of Television Programming in a Dynamic Marketplace*, 34 Cath. U. L. Rev. 671, 691 (1985); Note, *Closing the Book on the Public Lending Right*, 63 N.Y.U. L. Rev. 878, 901 & n.228 (1988); Annotation, *I Copyright L. J.* 102, 103 (1985); Annotation, *V Copyright L.J.* 10 (1989).

We have considered Red Baron's other arguments and find them lacking in merit. We hold that Red Baron, not having a performance license from Taito or Taito America, infringed Taito's copyright. We therefore reverse the judgment of the district court and remand the case for further proceedings consistent with the views expressed herein.

REVERSED AND REMANDED.

APPENDIX F**FOURTH CIRCUIT ORDER DENYING
REHEARING AND MODIFYING PRIOR OPINION****ORDER**

The petition for rehearing of *Red Baron-Franklin Park, Inc. and Fun Factories, Inc.* having been read and considered, the panel being of the view that the petition should be denied but that the opinion heretofore filed be modified in minor respects, and no judge eligible to do so having requested a poll on the suggestion for rehearing in banc, it is, with the concurrence of Judge Phillips and Judge Chapman, **ORDERED**

1. Said petition for rehearing be and it is hereby denied.
2. The opinion heretofore filed be and it is hereby modified as follows:
 - a. On page 4, the last sentence shall be revised to read "However, it is claimed that each of these boards, when put into play, exhibited the following restrictive notice:"
 - b. A footnote 2 is hereby added to the restrictive notice quoted at the top of page 5, said footnote to read as follows:

²Red Baron argues that what, if anything, the circuit board exhibits when first put into play is not in the record. This argument is manifestly frivolous as the circuit board was admitted into evidence in the case. Additionally, Red Baron asserts that the circuit board does not exhibit the restrictive notice. Taito with equal vehemence argues that it does. It is beyond the comprehension of the panel why responsible counsel should be unable to agree as to

what a circuit board in evidence does or does not say. Ordinarily the panel would undertake to resolve the dispute, but determining what the circuit board exhibits would require the production of a television monitor and related equipment, and what, if anything, the board says is presumably in Japanese so that an interpreter would also be required. Since our view of the proper disposition of this case does not depend on the presence or absence of the restrictive notice, we will not undertake to resolve this factual issue.

c. Footnotes 2-4 of the opinion heretofore filed shall be renumbered as footnotes 3-5.

d. The footnote references on page 12 shall be renumbered to reflect the changes required by ¶c hereof.

e. Footnote 4 of the opinion heretofore filed (now footnote 5) shall be modified to read as follows:

As stated in the text, Taito claims that it did attempt to limit the performance right geographically to Japan.

/s/ Harrison L. Winter
U.S. Circuit Judge

Filed: September 5, 1989.

APPENDIX G
DISTRICT COURT JUDGMENT ON REMAND

ORDER

This action came on to be heard on Taito America Corporation's "Motion for Partial Summary Judgment of Copyright Infringement" and "Red Baron's Cross-Motion in Response to Taito America Corp.'s Motion for Partial Summary Judgment of Copyright Infringement." The issues having been duly tried and considered by this Court and by the United States Court of Appeals for the Fourth Circuit, and in accordance with the opinions and orders issued by said courts on August 29, 1988 and September 30, 1988; and July 18, 1989 and September 5, 1989, respectively;

IT IS ORDERED AND ADJUDGED:

1. that this Court's Order, dated August 29, 1988, is hereby VACATED;

2. that Taito America Corporation's "Motion for Partial Summary Judgment of Copyright Infringement" is GRANTED IN PART and DENIED IN PART:

3. that "Red Baron's Cross-Motion in Response to Taito America Corp.'s Motion for Partial Summary Judgment of Copyright Infringement" is GRANTED IN PART and DENIED IN PART;

4. that the defendants, Taito America Corporation and Taito Corporation, their offices, agents, servants, employees, attorneys, and all those in active concert or participation with them, are permanently enjoined and restrained from taking any action pursuant to the Copyright Revision Act of 1976, 17 U.S.C. §§ 101 *et seq.*, to interfere with the plaintiffs' importation or resale of Double Dragon printed circuit boards that are lawfully imported;

5. that the plaintiffs, Red Baron - Franklin Park, Inc. and Fun Factories of Ohio, Inc., their officers, agents, servants, employes, attorneys, and all those in active concert or participation with them, are permanently enjoined and restrained from using in their video game arcades or any other public location imported Double Dragon printed circuit boards, unless Taito America consents to such use or Taito America directly or indirectly sells the printed circuit boards to plaintiffs; and

6. that the Clerk shall forward copies of this Order to all counsel of record.

/s/ James C. Cacheris
United States District Judge

Dated: 9/20/89
Alexandria, Virginia

Agreed as to form:
/s/ Richard H. Stern, Counsel for Plaintiffs
/s/ Joseph M. Kileen, Counsel for Defendants

DEC 29 1989

JOSEPH F. SPANIOL, JR.
CLERK

No. 89-896

IN THE
Supreme Court of the United States
OCTOBER TERM, 1989

**RED BARON — FRANKLIN PARK, INC., and
FUN FACTORIES OF OHIO, INC.,**

Petitioners,

v.

TAITO CORP. and TAITO AMERICA CORP.,

Respondents.

**On Petition For A Writ Of Certiorari To The United
States Court Of Appeals For The Fourth Circuit**

RESPONDENTS' BRIEF IN OPPOSITION

JACK C. BERENZWEIG
(Counsel of Record)
JEROME GILSON
CYNTHIA A. HOMAN
WILLIAM BRINKS OLDS HOFER
GILSON & LIONE
NBC Tower
455 North Cityfront Plaza Drive
Suite 3600
Chicago, Illinois 60611
(312) 321-4200
Counsel for Respondents

COUNTERSTATEMENT OF QUESTIONS PRESENTED

As stated by the petitioners, the questions presented obfuscate the single clear and concise question actually involved in this case. Accurately stated, the question presented is as follows:

Did the Fourth Circuit correctly conclude that an unlicensed public performance of a copyrighted video game infringes the exclusive public performance right granted to the copyright owner by 17 U.S.C. § 106(4)?

RULE 28.1 STATEMENT

Kyocera Co., Ltd. owns approximately 22.5% of the shares in respondent, Taito Corporation. Respondent, Taito America Corporation, is a wholly-owned subsidiary of Taito Corporation.

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No. 89 - 896

IN THE
Supreme Court of the United States

OCTOBER TERM, 1989

RED BARON — FRANKLIN PARK, INC., and
FUN FACTORIES OF OHIO, INC.,

Petitioners,

v.

TAITO CORP. and TAITO AMERICA CORP.,

Respondents.

On Petition For A Writ Of Certiorari To The United
States Court Of Appeals For The Fourth Circuit

RESPONDENTS' BRIEF IN OPPOSITION

Respondents Taito Corporation and Taito America Corporation¹ respectfully request that this Court deny the petition for a writ of certiorari, which seeks review of the judgment and opinion of the United States Court of

¹ Taito America Corporation is a wholly-owned subsidiary of Taito Corporation. As the exclusive licensee of Taito Corp., Taito America is the actual holder of the U.S. copyright rights in Double Dragon. In this brief, the two parties are collectively referred to as "Taito". Petitioners, Red Baron—Franklin Park, Inc. and Fun Factories of Ohio, Inc. are collectively referred to as "Red Baron".

Appeals for the Fourth Circuit, reported at 883 F.2d 275 and reprinted in the appendix to the petition at pages A 13a-25a.

COUNTERSTATEMENT OF THE CASE

A. Red Baron Has Mischaracterized The Record

Red Baron's statement of the case mischaracterizes the record of the proceedings below. For example, Red Baron repeatedly suggests that Taito has engaged in unlawful tying practices, when, in fact, Red Baron previously expressly withdrew its unsubstantiated claims of antitrust violations and misuse (JA 339-40). No such claims were decided by the district court or the court of appeals, nor are any before this Court. The *only* issue decided on the cross-motions for summary judgment was the issue of Red Baron's infringement of Taito's copyright in the audio-visual work, Double Dragon.

In addition, Red Baron incorrectly characterizes this as an "importation" case whose outcome depends on the Court's view of whether parallel goods should be permitted to enter into the stream of commerce. This is no such case. The only copyright issue that Taito raised on appeal and that was decided by the Fourth Circuit was Red Baron's infringement of Taito's public performance right.² The public performance right is one of five exclu-

² Thus, Red Baron wrongly attacks the appellate court for not discussing the importation cases, such as *Sebastian Int'l Inc. v. Consumer Contacts (PTY) Ltd.*, 847 F.2d 1093 (3d Cir. 1988), relied on by Red Baron. The Fourth Circuit had no need to discuss these cases since no importation issue was before the court.

sive rights granted by statute to every owner of a copyright in an audiovisual work, 17 U.S.C. § 106(4), and it applies to all copies of a protected work, whether imported or domestically manufactured.

Another mischaracterization by Red Baron arises out of its use of an ellipsis. Twice, in quoting from the Fourth Circuit's opinion (Cert. Pet. at 8, 14), Red Baron uses an ellipsis to substitute for the words "so the argument runs" (A 20a), where the court was restating Red Baron's position. By eliminating these key words from the quotation, Red Baron leaves the impression, and indeed states, that the Fourth Circuit adopted Red Baron's arguments on estoppel, exhaustion, and implied license, when in fact, the court rejected these arguments. Moreover, the court rejected the arguments because of their own lack of merit, and not, as Red Baron wrongly contends, because the court relied on the restrictive notice that Taito claims is affixed to Double Dragon printed circuit boards sold in Japan.

Red Baron also mischaracterizes the record by its repeated suggestion that the copyrighted work is "coin-operated video game equipment", including hardware, rather than the audiovisual game, Double Dragon, itself. The related hardware used to house and energize the game is not in issue here.

The foregoing mischaracterizations are simply representative of the liberties Red Baron has taken with the record in an effort to enhance its case.

B. The Proceedings In The District Court

Red Baron initiated this litigation, asserting claims of federal and state antitrust violations and copyright misuse

and seeking a declaration that Red Baron had not committed copyright infringement by its importation and use of parallel printed circuit boards embodying the Double Dragon video game. In response, Taito denied the allegations of the complaint and asserted counterclaims for copyright and trademark infringement and federal unfair competition arising out of Red Baron's importation and use of printed circuit boards embodying the Double Dragon video game.

Cross-motions for summary judgment on the antitrust, misuse, and copyright claims were filed. However, before any decision was rendered on the motions, the parties filed a joint statement for the express purpose of simplifying resolution of the motions (JA 339-344). The effect of the joint resolution was that the only issue left for the district court to decide was whether, as a matter of law, Red Baron's importation and use of Double Dragon printed circuit boards infringed Taito's copyright rights in Double Dragon.

The district court ruled in Red Baron's favor. However, the court's opinion focused solely on the interrelationship of 17 U.S.C. § 602(a), which provides that the unauthorized importation and use of copyrighted goods is an infringement of the exclusive distribution right, and 17 U.S.C. § 109(a), which provides that the owner of a particular copy of a work protected under the Copyright Act is entitled to sell or otherwise dispose of that copy as he sees fit. The court did not address Taito's position that, in the alternative, Red Baron was infringing Taito's exclusive right of public performance as provided by 17 U.S.C. § 106(4).

Thus, Taito timely moved for the district court to alter or amend its judgment pursuant to Fed. R. Civ. P. 59(e).

The basis of Taito's motion was its conviction that the district court overlooked the exclusive public performance right set forth in § 106(4) because, had the court separately considered § 106(4), it would have been compelled to rule in Taito's favor. Although the court acknowledged that the only mention in its opinion of § 106(4) was a reference in a footnote enumerating the rights granted under § 106, it summarily denied Taito's motion.³

C. The Fourth Circuit's Unanimous Reversal Of The District Court's Decision

The only issue raised by Taito on appeal was Red Baron's infringement of Taito's public performance right granted it by 17 U.S.C. § 106(4). Unlike the district court, the Fourth Circuit gave due consideration to this issue and unanimously reversed the court below.

In reaching its decision, the appellate court fully considered and rejected the arguments that Red Baron raises here. The court first considered whether Red Baron's use of Double Dragon constitutes a public performance within § 106(4) and unequivocally concluded that it does. The court applied to Red Baron's conduct the statutory definitions of the terms "perform" and perform "publicly" and found that Red Baron did publicly perform Double Dragon (A 18a-19a). In rejecting Red Baron's argument that the

³ The district court's omission was not summarily dismissed by authoritative commentators. When commenting on the decision, the leading weekly professional journal on intellectual property law noted, "Although not addressed in Judge Cacheris' opinion, a further question remains as to the effect of a first sale . . . Even if the distribution right was extinguished by the first sale, this case also involved a performance right of an audiovisual work under section 106(4)." Pat. Trademark & Copyright J. (BNA) 599, 600 (1988).

performance of Double Dragon by its video arcade customers is not public, the court observed:

There is no real dispute here that Red Baron's video arcades are open to the public; of course, Red Baron's aim is to attract as many members of the public to its arcades as possible. The use of a Double Dragon unit may be viewed by the player, any persons accompanying him, and any other interested patrons of the video arcade.

Thus our conclusion is that Red Baron caused the public performance of Double Dragon (A 19a).

The court next addressed Red Baron's contention that the first sale doctrine as codified in 17 U.S.C. § 109(a) extinguished Taito's public performance right. The court acknowledged that the argument has a "certain superficial, logical appeal" (A 19a), but then went on to illustrate why it cannot withstand a reasoned analysis.

As with any statutory analysis, the court properly began with the language of the statute (A 21a). Section 106 of the Copyright Act grants the copyright owner five separate and distinct rights, including the rights of reproduction, preparation of derivative works, distribution, public performance, and public display (A 21a). The only exceptions to these rights are specifically enumerated in 17 U.S.C. §§ 107-118. Thus, § 109(a) provides that, "Notwithstanding the provisions of section 106(3), the owner of a particular copy or phonorecord lawfully made under this title, . . . , is entitled, . . . , to sell or otherwise dispose of the possession of that copy or phonorecord." However, as the Fourth Circuit correctly recognized, § 109(a) is limited by its very terms to *distribution* of the copyrighted work and "has no application to the other four rights of a copyright owner, including the right to perform the work publicly" (A 21a).

The Fourth Circuit further recognized that the judiciary, learned commentators, and the legislative history of the Copyright Act unanimously support its conclusion that § 109(a) does not extinguish or impair the public performance right (A 21a-23a). In particular, the court found "persuasive" two recent Third Circuit decisions with similar facts, both of which are solid authority for the appellate court's ruling in this case (A 21a). See *Columbia Pictures Indus., Inc. v. Aveco, Inc.*, 800 F.2d 59 (3d Cir. 1986) ("*Aveco*") and *Columbia Pictures Indus., Inc. v. Redd Horne, Inc.*, 749 F.2d 154 (3d Cir. 1984) ("*Redd Horne*").

In *Aveco* and *Redd Horne*, the producers of certain motion pictures charged that the owners of videocassette rental stores were infringing the producers' public performance rights in the motion pictures by renting videocassettes along with rooms in which the pictures could be viewed. It was undisputed in both cases that the videocassettes were made and lawfully acquired by the store owners, and there were no charges that any other exclusive rights, including the distribution right, had been infringed. In both cases, the Third Circuit ruled that the producers' public performance rights were infringed, despite the defendants' contentions that their actions were protected by the first sale doctrine. The Fourth Circuit, quoting *Aveco*, explained why the first sale doctrine does not affect the public performance right:

The rights protected by copyright are divisible and the waiver of one does not necessarily waive any of the others . . . In particular, the transfer of ownership in a particular copy of a work does not affect Producers' Section 106(4) exclusive rights to do and to authorize public performances . . . It therefore cannot protect one who is infringing Producers' Section 106(4) rights by the public performance of the copyrighted work (A 22a).

With respect to Red Baron's other arguments asserted here, i.e., estoppel and implied license, the Fourth Circuit explained that it considered them and found them "lacking in merit" (A 23a). Thus, the court unanimously reversed the judgment of the district court and held that, "Red Baron, not having a performance license from Taito or Taito America, infringed Taito's copyright" (A 23a).

Red Baron filed a petition for rehearing in banc, pinning its hopes on the Fourth Circuit's passing reference to the effect that Double Dragon printed circuit boards sold by Taito in Japan exhibit a notice restricting use of the game to Japan (A 15a, 20a n.4). Even though it is clear from the opinion that the restrictive notice did not form any part of the basis for the appellate court's ruling, Red Baron argued otherwise.

Without requesting any response from Taito, the Fourth Circuit summarily denied Red Baron's petition, although it modified its prior opinion "in minor respects" (A 24a). The primary purpose of the modification was to make clear what was obvious from the face of the original opinion—that the court did not rely on the restrictive notice in reaching its result. As stated by the court, "*Since our view of the proper disposition of this case does not depend on the presence or absence of the restrictive notice, we will not undertake to resolve this factual issue*" (A 25a) (emphasis added).⁴

⁴ The court characterized as "manifestly frivolous" Red Baron's contention, also advanced before this Court, that what, if anything, the printed circuit boards exhibit is not part of the record (A 24a n.2). At oral argument, it was Red Baron's counsel who placed one of the printed circuit boards before the court and relied on it as part of his argument. Presumably, Red Baron's counsel would

(Footnote continued on following page)

SUMMARY OF REASONS FOR DENYING THE WRIT

Red Baron's petition asks this Court to exercise its certiorari jurisdiction to review an issue that was carefully considered and correctly decided. The Fourth Circuit unanimously agreed that Red Baron's unlicensed public performance of the video game, Double Dragon, infringes Taito's copyright therein.

Red Baron's argument that the Fourth Circuit's decision conflicts with this Court's decision in *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811 (1988), is without merit. *K Mart* did not advance the broad policy statements on parallel imports which Red Baron claims that it did. Moreover, *K Mart* is not in conflict with this case because it has no relationship to it. *K Mart* concerned the interpretation and application of certain Customs Service regulations as they apply to the importation of parallel goods. By contrast, the public performance right of 17 U.S.C. § 106(4), which the Fourth Circuit held that Red Baron is infringing, has nothing to do with the importation of goods. Rather, this exclusive right belongs to the copyright owner regardless of whether the copies of the protected work were manufactured in the U.S. or abroad.

Congress specifically provided copyright owners of audiovisual works with an exclusive right of public performance, along with four other exclusive rights, when it en-

⁴ *continued*

have sought advance permission from the court, and would have so advised Taito's counsel, if Red Baron intended to rely on a visual aid that was *not* already an exhibit in the case. See Fed. R. App. P. 34(g).

acted 17 U.S.C. § 106. Red Baron is clearly causing the public performance of Double Dragon by making it available for play at its video arcades, which are open to the public and where any member of the public may play the game or watch another person playing it. The exceptions to the exclusive rights are specifically set forth in the Copyright Act. The only exception asserted by Red Baron here, that of first sale as provided by 17 U.S.C. § 109(a), is inapplicable. Section 109(a) is expressly limited to the exclusive right of distribution and does not affect any of the other exclusive rights, including that of public performance.

Red Baron's exhaustion, estoppel, and implied license theories are equally unpersuasive. By virtue of its enactment of § 106(4), Congress, in effect, modified these common law principles as they may pertain to audiovisual works protected by copyright. Thus, it is not surprising that Red Baron has been unable to cite a single case espousing either theory in the context of this case. Indeed, there is sound authority to the contrary. Red Baron is asking this Court to legislate a change to the public performance right, an invitation that the Court should not accept.

The question presented by the petition is not sufficiently important to warrant an expenditure of this Court's scarce resources. The Fourth Circuit reached a correct decision that is in accord with established precedent and practice, and no court or commentator has even hinted that this Court's intervention is needed on this question.

For these reasons, the petition for a writ of certiorari should be denied.

REASONS FOR DENYING THE WRIT

A. The Fourth Circuit Reached A Correct Decision That Is In Accord With An Established Line Of Precedent

The Fourth Circuit's decision is squarely supported by the express language of the Copyright Act, which unequivocally provides a copyright owner with a separate and exclusive right of public performance. 17 U.S.C. § 106(4). Moreover, the first sale provision of 17 U.S.C. § 109(a), relied upon by Red Baron, is expressly limited to the right of distribution.⁵ The courts and commentators speak with one voice on this point, and Red Baron's attempt to argue otherwise is indicative of its willingness to present a totally unsupported position as though it were established law.

The Fourth Circuit correctly concluded that Red Baron's conduct with respect to Double Dragon constitutes public performance of the work (A 17a-19a). Although Red Baron apparently is not so brazen as to argue that Double Dragon is not "performed" in its video game arcades by members of the public, it does argue that the performances are not "public". Astoundingly, Red Baron chastises the appellate court for applying the statutory definition of these terms in deciding this issue (Cert. Pet. at 23-24).

⁵ See, e.g., the many authorities relied upon by the Fourth Circuit at pages A 21a-23a. As Professor Nimmer stated in his renowned treatise on copyright law, "It should be made clear that one who is entitled to claim the benefit of Section 109(a) is not thereby exempted from the thrust of any rights of the copyright owner other than the distribution right." 2 M. Nimmer, *Nimmer On Copyright* § 8.12[D] at 8-132.5 (1989).

As defined by the Copyright Act, to "perform" an audiovisual work, such as Double Dragon, means to "show its images in any sequence or to make the sounds accompanying it audible." 17 U.S.C. § 101. According to the Act, to perform a work "publicly" means to "perform . . . it at a place open to the public or any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered" 17 U.S.C. § 101.

It is undisputed that Red Baron operates video game arcades for use by the public (A 14a). At these arcades, Red Baron places parallel Double Dragon printed circuit boards in coin-operated cabinets so that members of the public may play the game (A 14a). In so doing, Red Baron is clearly causing the "public performance" of Double Dragon. See *Midway Mfg. Co. v. Dirkschneider*, 571 F. Supp. 282, 284-286 (D. Neb. 1983).

Red Baron makes the puzzling argument that video game playing is a private activity akin to singing in the shower because young people generally play video games. This argument is perhaps most readily laid to rest by pointing out that a shower is not generally, in the words of the statute, "a place open to the public or . . . any place where a substantial number of persons outside of a normal circle of a family and its social acquaintances is gathered." 17 U.S.C. § 101. By contrast, as the Fourth Circuit pointed out, not only is there no dispute that Red Baron's arcades are open to the public, but indeed, "Red Baron's aim is to attract as many members of the public to its arcades as possible" (A 19a).

Red Baron further argues that even if its arcades are open to the public, the performance of a video game in an arcade is a private activity. However, as the Fourth

Circuit stated in dismissing this argument, "The use of a Double Dragon unit may be viewed by the player, any persons accompanying him, and any other interested patrons of the video arcade" (A 19a). Moreover, Red Baron's argument that the Fourth Circuit's decision on this point is without precedent is in error. *See, e.g., Redd Horne*, 749 F.2d at 158-59; *Aveco*, 800 F.2d at 63 (holding that even though videocassettes were viewed in private rooms, the performances were "public" because the stores were "willing to make a viewing room and video cassette available to any member of the public with the inclination to avail himself of this service"); *Video Views, Inc. v. Alexander*, 226 U.S.P.Q. 443 (D. Minn. 1985) (screening a film on a "peep show" machine located in a video arcade constitutes a public performance of the film).

The Fourth Circuit's decision that Red Baron's unlicensed use of Double Dragon in video arcades is an infringement of Taito's public performance right is fully supported by the Copyright Act and its legislative history, by judicial precedent, and by learned commentators. This Court should not review a clearly correct result.

B. The Fourth Circuit's Decision Is Not Related To, Let Alone In Conflict With, This Court's Decision In *K Mart*

Although Red Baron has attempted to surround the issue presented by this case with an aura of importance (e.g., by suddenly referring to this as a "test" case), it is, in fact, a simple and straightforward issue pertaining to the interpretation and application of the Copyright Act's public performance right as applied to video games. The decision in this case certainly is *not*, as Red Baron contends, in conflict with this Court's decision in *K Mart Corp. v. Cartier, Inc.*, 108 S. Ct. 1811 (1988). There is, in fact, no relationship between the issues in the two

cases. Red Baron attempts to give such an appearance by embellishing both what this Court decided in *K-Mart* and what the Fourth Circuit decided in this case, and it attempts to draw non-existent parallels between the two cases.

This Court's decision in *K Mart* had *nothing* to do with the Copyright Act, and it did *not* establish a sweeping policy statement favoring parallel goods. Indeed, the Court in *K Mart* struck down the Customs Service regulation which permitted the importation of parallel goods manufactured in a foreign country by an independent trademark licensee. *Id.* at 1818-19. Although Red Baron argues that the Court's opinion in *K Mart* was embroidered with far-reaching statements on foreign cartels and world markets, the opinion of the divided Court actually was a very narrow analysis of the applicable statute and regulations.

Just as Red Baron overstates the holding in *K-Mart*, so it also overstates the decision of the Fourth Circuit. As even the most cursory reading of the court's opinion illustrates, the Fourth Circuit did *not* expressly or impliedly rule, as Red Baron contends, "that Taito was free to use federal copyright law as a vehicle for dividing world markets" (Cert. Pet. at 10). Indeed, the public performance right of 17 U.S.C. § 106(4) applies to all protected audiovisual works, regardless of where the copies originated. Notably, Red Baron's quoted statement gives no citation to any page of the appellate court's opinion. In addition, this case does not, as *K Mart* did, involve issues relating to the Tariff Act and Customs Service regulations. This is a copyright case and nothing more, and the court's decision is so limited.

Red Baron's attempt to present a conflict between the Fourth Circuit's decision and *K Mart* is without merit.

Red Baron has seized upon the *K Mart* decision as a way, however far removed from the issue at bar, to get the Court's attention. The fact remains, however, that there cannot be a conflict where, as here, there is no substantive relationship between the cases.

C. As With Its *K Mart* Argument, Red Baron's Argument That The Fourth Circuit's Decision Is In Conflict With Other Prior Decisions Is Manufactured Out Of Whole Cloth

Red Baron presents a tortured argument in its effort to establish a conflict among the circuits where none exists. The lack of merit in Red Baron's argument is clearly illustrated by its contention that the Fourth Circuit's decision conflicts with the very decisions relied upon by that court, *i.e.*, the Third Circuit's decisions in *Aveco* and *Redd Horne* that the copyright owners' public performance rights *were* infringed.

In reaching its decision, the Fourth Circuit assumed that the Double Dragon video games were transferred without restriction (A 25a), but it still rejected Red Baron's common law estoppel, exhaustion, and implied license arguments (A 23a).⁶ This rejection was clearly correct in view of Congress's plain intention to make an exception to these common law principles at least insofar as the public performance right for audiovisual works is concerned. 17 U.S.C. § 106(4). That is to say, had Congress intended,

⁶ As explained above, in its petition Red Baron wrongly attempts to prove otherwise (Cert. Pet. at 8, 14). By substituting an ellipsis for the court's words "so the argument runs" (A 20a), Red Baron makes it appear as though the Fourth Circuit adopted Red Baron's argument, when in fact, the court was restating Red Baron's position, which the court later rejected.

under one of these theories, to limit the public performance right after there had been a first sale of the copyrighted work, it would have included such a provision in § 109, as it did in § 109(a) with respect to the distribution right and in § 109(c) with respect to the public display right. Notably, in 17 U.S.C. § 110, Congress did set forth certain exceptions to the public performance right for such purposes as education, religion, and other non-profit activities. Apart from these limited exceptions, it is well-established that the exclusive right of public performance survives a first sale unimpaired. *See, e.g., Mirage Editions, Inc. v. Albuquerque A.R.T. Co.*, 856 F.2d 1341, 1344 (9th Cir. 1988), *cert. denied*, 109 S. Ct. 1135 (1989); *Aveco*, 800 F.2d at 63-64; *Redd Horne*, 749 F.2d at 160; *United States v. Moore*, 604 F.2d 1228, 1232 (9th Cir. 1979).

Red Baron's reliance on patent cases as support for its exhaustion argument is misplaced, since there is no corresponding public performance right in patent law. Moreover, this Court has specifically cautioned against applying decisions in patent cases to copyright cases. As the Court said in *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 439 n. 19 (1984), copyright law and patent law "are not identical twins, and we exercise the caution which we have expressed in the past in applying doctrine formulated in one area to the other." This caution is particularly apt here where Congress expressly delineated the public performance right and the limited exceptions thereto.

As does copyright law, patent law does have a distribution right (the right to sell), which is limited by the first sale of the patented product. However, patent decisions on the distribution right have no more pertinence here than the copyright distribution cases cited by Red Baron. As noted above, the distribution right in copyright

law is specifically abridged by the first sale doctrine of § 109(a), but there is no corresponding restriction on the public performance right.

Red Baron's estoppel and implied license arguments are likewise without merit. Again, there cannot be an estoppel as to the public performance right by virtue of a first sale where the Copyright Act specifically provides otherwise. In essence, Red Baron is arguing for a merger of the distribution and public performance rights, which is directly contrary to Congress's clear intention. Indeed, although Red Baron argues otherwise (Cert. Pet. at 21), the legislative history of the 1976 Copyright Act *does* state its intention that the public performance right is to be treated differently than the distribution right. Thus, the Senate Report states, "Under Section 202 [which provides that ownership of a copyright is distinct from ownership of the material object in which the work is embodied], however, the owner of the physical copy or phonorecord cannot reproduce or perform the copyrighted work publicly without the copyright owner's consent." S. Rep. No. 473, 94th Cong., 1st Sess. 72 (1975).

Red Baron's claim that five decisions dealing with motion pictures support its position is in error. Two of the cited cases—*Aveco* and *Redd Horne*—were expressly relied upon by the Fourth Circuit and are in complete accord with the appellate court's decision here. Nonetheless, Red Baron argues that these cases, which involved videocassettes of motion pictures, are consistent with its "estoppel" theory because the intended use of a videocassette is for home use, not commercial use, whereas, in Red Baron's view, a printed circuit board containing a video game like *Double Dragon* is intended for commercial, and not home, use. Such an argument, if adopted,

would completely undercut the Copyright Act which protects the work, regardless of its physical embodiment. Thus, for example, the Disney cartoon, *Snow White*, is protected by copyright and cannot be publicly performed regardless of whether the performance results from a showing of the work as embodied in an 8 mm film, a 35 mm film, or a videocassette.

Universal Film Mfg. Co. v. Copperman, 218 F. 577 (2d Cir.), *cert. denied*, 235 U.S. 704 (1914), applied a prior copyright law and, moreover, it was subsequently construed as having "clearly intimated that the exhibition of a copyrighted motion picture would have been considered an infringement of the copyright, except for the fact that its copyright was found to be void because of prior publication and dedication in England before registration in the United States." *Tiffany Prods., Inc. v. Dewing*, 50 F.2d 911, 914 (D. Md. 1931).

United Artists Television, Inc. v. Fortnightly Corp., 377 F.2d 872 (2d Cir. 1967), *rev'd*, 392 U.S. 390 (1968), also relied on by Red Baron, merely referred in dicta to *Copperman*. Indeed, the appellate court in *Fortnightly* found that there had been unauthorized and infringing public performances. *Id.* at 885. In the other case cited by Red Baron, *Hampton v. Paramount Pictures Corp.*, 279 F.2d 100 (9th Cir.), *cert. denied*, 364 U.S. 882 (1960), the court again found that there had been an unauthorized public performance. *Id.* at 103.

Not only do *Copperman*, *Fortnightly*, and *Hampton* fail to support Red Baron's exhaustion/estoppel arguments or point to any conflict among the authorities, but there is also ample authority in addition to *Aveco* and *Redd Horne* which establishes that public performances of audiovisual works are unlawful unless authorized by the copyright

owner. See, e.g., *Paramount Pictures Corp. v. Sullivan*, 546 F. Supp. 397 (D. Me. 1982); *Pickford Corp. v. De Luxe Laboratories, Inc.*, 169 F. Supp. 118, 120-21 (S.D. Cal. 1958); *Metro-Goldwyn-Mayer Distrib. Corp. v. Bijou Theatre Co.*, 3 F. Supp. 66 (D. Mass. 1933). This Court itself has said, "It is true that control of the sale of copies is not permitted by the [Copyright] Act, but a monopoly is expressly granted of all public performances for profit." *Buck v. Jewell-LaSalle Realty Co.*, 283 U.S. 191, 197 (1931) (footnote omitted).

There is no conflict between the Fourth Circuit's decision and prior pertinent decisions. Rather, the decision below is fully consonant with the applicable precedent.

D. This Court Should Not Legislate An Exception To The Exclusive Public Performance Right Of A Copyright Owner

As the Fourth Circuit recognized, and as the controlling authorities conclusively establish, § 106(4) of the Copyright Act gives Taito the exclusive right to publicly perform Double Dragon. Since Red Baron's activities with respect to Double Dragon do not fall within any of the statutory exceptions to the copyright owner's exclusive rights, Red Baron is infringing Taito's copyright in Double Dragon.

When stripped of its rhetoric, it is apparent that Red Baron's petition is asking this Court to legislate an additional exception to the public performance right to cover Red Baron's parallel printed circuit boards. This Court has long recognized, however, that "the protection given to copyrights is wholly statutory" and that the judiciary must not tread into Congress's domain on such matters. *Sony Corp. of America v. Universal City Studios, Inc.*, 464 U.S. 417, 431 (1984). Moreover, Red Baron's suggestion that the public performance right should not be ap-

plied here because video game technology is of relatively recent origin is equally without merit. In *Redd Horne*, the Third Circuit rejected a nearly identical argument:

A defendant however, is not immune from liability for copyright infringement simply because the technologies are of recent origin or are being applied to innovative uses. Although this case involves a novel application of relatively recent technological developments, it can nonetheless be readily analyzed and resolved within the existing statutory framework.

Redd Horne, 749 F.2d at 157-58. See also *Sony*, 464 U.S. at 431.

Under the prevailing copyright laws, Red Baron is clearly infringing Taito's copyright. The fact that Congress delineated certain statutory exceptions to the exclusive rights of a copyright owner, including the public performance right, indicates that Congress did not intend for there to be additional exceptions carved out. This Court has previously rightly refused to engage in legislating copyright law, and it should not accept Red Baron's invitation to do so now.

E. The Fourth Circuit's Decision Is Not Sufficiently Important For This Court To Review

Contrary to Red Baron's arguments, the Fourth Circuit's decision is not unprecedented. Indeed, it is but another decision in an unbroken chain of cases enforcing the public performance right.⁷ Moreover, in other indus-

⁷ *Aveco* and *Redd Horne* are among the most recent decisions enforcing the public performance right. Other recent cases include *Video Views, Inc. v. Alexander*, 226 U.S.P.Q. 443 (D. Minn. 1985); *Midway Mfg. Co. v. Dirkschneider*, 571 F. Supp. 282 (D. Neb. 1983); *Broadcast Music, Inc. v. Branham*, 1981-1983 Copyright Dec. (CCH) ¶ 25,427 (S.D. Ohio 1982).

tries which routinely exploit audiovisual works for profit (as Red Baron is doing here), such as motion pictures, television, radio, and nightclubs, licensing procedures are an accepted part of doing business.

Without any citation of authority, Red Baron nonetheless argues that it is entitled to use, without authorization, the Double Dragon parallel printed circuit boards for their "customary purpose" (Cert. Pet. at 21). However, the "customary purpose" of a play, for example, is to perform it, yet it is beyond dispute that, while one can read a play privately without needing a license, in order to stage a copyrighted play on Broadway, a public performance license must be obtained. The same is true for parallel Double Dragon printed circuit boards. One can freely perform the work in the privacy of one's home or for non-profit purposes, but to perform it in video arcades, a license must be obtained. In short, the question presented by the petition lacks importance because the Fourth Circuit's decision is in complete accord with precedent and practice.

Furthermore, Taito is not aware that any court which has considered the public performance right or any commentator who has done likewise has ever expressed the slightest concern with enforcing 17 U.S.C. § 106(4) as written. Indeed, the Fourth Circuit carefully considered the public performance right in light of the facts at bar, and it unanimously, and without reservation, ruled that the right must be enforced here. It is not insignificant that several amendments were made to the Copyright Act within the last year, but no changes were made to either § 106(4) or § 109(a), the first sale doctrine.

The decision below is clearly not one that warrants an expenditure of this Court's scarce resources.

CONCLUSION

Red Baron's petition asks this Court to overturn a decision that is correct and in accord with established precedent. Moreover, the petition seeks review of an issue that does not warrant this Court's attention. Accordingly, the petition for a writ of certiorari should be denied.

Respectfully submitted,

JACK C. BERENZWEIG
(Counsel of Record)

JEROME GILSON

CYNTHIA A. HOMAN

WILLIAM BRINKS OLDS HOFER

GILSON & LIONE

NBC Tower

455 North Cityfront Plaza Drive

Suite 3600

Chicago, Illinois 60611

(312) 321-4200

Counsel for Respondents

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IN THE
Supreme Court of the United States
OCTOBER TERM, 1989

RED BARON - FRANKLIN PARK, INC., *and*
FUN FACTORIES OF OHIO, INC.,
Petitioners,

v.

TAITO CORP. *and* TAITO AMERICA CORP.,
Respondents.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FOURTH CIRCUIT

REPLY BRIEF FOR THE PETITIONERS

RICHARD H. STERN
Counsel of Record
Suite 300
1300 19th Street, N.W.
Washington, D.C. 20036
(202) 659-1385

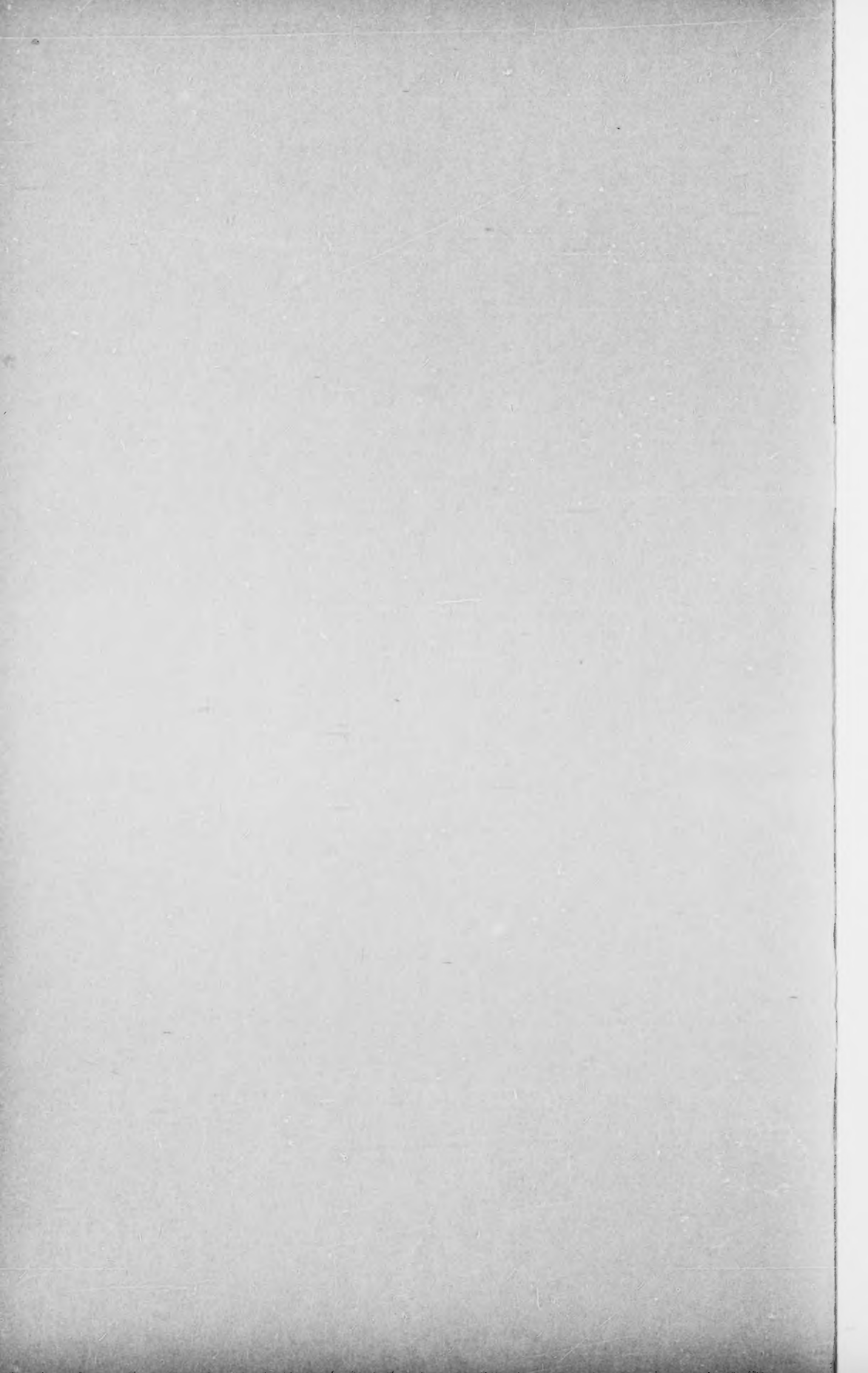


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1. Taito erroneously describes the ruling below on estoppel. The court of appeals clearly ruled in its first opinion (App. 19a-20a) that "Taito may be fairly said to know that the circuit boards have utility only in the hands of someone who plans to exploit them commercially," a method of exploitation that the court held was "public performance" under the copyright law. "Thus by selling the boards," the court went on, but for one supposed fact it follows that "Taito must intend to transfer the performance right, or must become estopped to deny that result, or must waive its right to claim infringement." The one supposed fact that negated the conclusion was that

“Taito did attempt to limit the performance right geographically to Japan” by a restrictive notice (App. 20a, n.4; see App. 15a). With or without the words, “so the argument runs,” that is still what the Fourth Circuit held below in its first opinion.

However, the restrictive notice did not exist; no one was able to provide a record citation for it, for there is none. The court of appeals therefore withdrew its original finding that there was a restrictive “Japan only” notice and modified its opinion (App. 24a-25a). But the lower court did not pause to explain why it still considered that Taito was not estopped, even though Taito sold boards that “Taito may be fairly said to know” have utility only for commercial public-performance use.

Accordingly, the opinion below gives a rationale (albeit, we believe, erroneous) why the *exhaustion doctrine* does not prevent Taito from suing purchasers of its goods when they use the goods for what is their only utility. But the court’s modification (App. 24a-25a) of the opinion below completely erased any possible rationale why Taito was not *estopped* or similarly precluded from suing such purchasers. The opinion gives no rationale and there is none. It is wholly unconscionable for a copyright owner to sell goods that have only one utility and then sue some purchasers (those who will not yield to a tie-in) for copyright infringement for using the goods for that one utility. The doctrine of estoppel (or implied license or waiver) prevents that inequitable result. *Aro Mfg. Co. v. Convertible Top Replacement Co.*, 377 U.S. 476, 484, 497 (1964); *United States v. Univis Lens Co.*, 316 U.S. 241, 249-51 (1942); *Met-Coil Sys., Inc. v. Korners Unlimited, Inc.*, 803 F.2d 684, 685-86 (Fed. Cir. 1986).

Taito incorrectly states that Red Baron argues that there is an estoppel merely “by virtue of a first sale” without more (Br. in Opp. 17). Red Baron makes no such argument. Red

Baron argues that there is an estoppel here, because Taito sold printed circuit boards whose ordinary, customary, and indeed only use is for public performance. *Aro, supra; Univis, supra*. Estoppel and first sale/exhaustion are distinct, but on occasion overlapping, legal doctrines; the case at bar happens to present a fact pattern to which each doctrine applies. But the reason that there is an estoppel (or implied license or waiver) here is not that there is a first sale, but rather that the printed circuit boards that Taito sold have only public-performance utility. In *such* circumstances, the seller of copyrighted goods is estopped from denying the purchaser the only value of the goods purchased.

2. Taito argues (Br. in Opp. 16) that this Court should disregard its own and lower courts' patent decisions on estoppel and exhaustion, on the theory that patents and copyrights "are not identical twins." Surely, they are not. But the very decision that Taito cites for this point applied patent law principles to a copyright case because both systems embodied similar policies; indeed, the very footnote that Taito cites is attached to this Court's statement in the text of its opinion that it is appropriate to apply patent law principles to the case before the Court because of the "historic kinship" of patent and copyright monopolies. *Sony Corp. v. Universal City Studios, Inc.*, 464 U.S. 417, 439 & n.19 (1984).

In the present case, the question is what legal inference is to be drawn when the owner of an intellectual property monopoly sells goods with a sole utility: Is it to be inferred that the purchaser is entitled to use the goods for that purpose, or is it part of the lawful monopoly of the seller to withhold that use? It makes no difference to the relative equities of the parties whether the intellectual property right is patent law's general use right or copyright law's more specific public performance use right. The question is the

same: Should the purchaser be allowed to use the goods for their only useful purpose? Does the fact that there is a distinct use right, as part of the patent and copyright monopolies, deprive the purchaser of the right to use the purchased goods for their sole utility? This Court's and lower courts' patent decisions clearly say "No." Until now, no lower court had held that there was no estoppel or implied license in a like copyright case. The legal question is the same, and the guiding legal principle is the same. This Court's patent decisions should therefore govern: the purchaser is entitled to use the goods for what is their sole utility.

3. The decision below is in clear conflict with the Second Circuit. *Universal Film Mfg. Co. v. Copperman*, 218 F. 577 (2d Cir.) *cert. denied*, 235 U.S. 704 (1914). Regardless of what Taito says (Br. in Opp. 18) that a Maryland district court thought the Second Circuit meant in *Copperman* the Second Circuit itself has expressly stated the opposite. The Second Circuit explicitly said that it held in *Copperman* that a copyright owner's sale of a print of a motion picture film conveys the right to perform the film in public for profit. *United Artists Television, Inc. v. Fortnightly Corp.*, 377 F.2d 872, 882 (2d Cir. 1967) *rev'd on other grounds*, 392 U.S. 390 (1968) (conduct not performance).

4. Taito objects to Red Baron's pointing out that Taito has engaged in equipment tie-ins and that the decision below allows Taito to continue to force that tie-in on U.S. video game operators by stopping them from engaging in parallel importation of genuine Taito printed circuit boards. By stipulation, Red Baron agreed not to pursue its claims for injunctive and damages relief against the tie-in. But the record is the record, and the record on Taito's motion for summary judgment (granted by the Fourth Circuit) shows without controversion that Taito forced an equipment tie-in on U.S. customers for

this video game (see, e.g., JA 21-22, 58, 150-51, App. 15a, n.1). There was no stipulation that the undisputed facts about the tie-in are to be expunged from the record or that they must not be considered in evaluating the impact of Taito's copyright arguments. There was no stipulation that the trial court's judgment in favor of parallel importation, which the Fourth Circuit effectively aside (Pet. 13), should be ignored.

The court below held that when copyright owners sell copyrighted goods the owners keep an unextinguished public performance right, regardless of the fact that the goods have no other utility. An important consequence of that interpretation of the copyright law is that it leaves purchasers of such goods at the mercy of foreign cartels who choose to impose tie-ins and other discriminatory practices on U.S. customers, and to suppress parallel importation, as here. See *NEC Electronics v. Cal Circuit Abco*, 810 F.2d 1506, 1511 (9th Cir.), *cert. denied*, 108 S. Ct. 152 (1987). To the extent that policies favoring or disfavoring abusive use of copyright and other intellectual property monopolies affect statutory interpretation, that aspect of the record below is relevant.

Taito also suggests that there really is record support for its claim that it used a "Japan only" notice (Br. in Opp. 8, n.4). Significantly, Taito offers no record cite to support its claim of the alleged notice. There is none. There is not one iota of record to support the claim of a "Japan only" notice; the only thing in the record is that Taito sold the boards outright (Pet. 4 & n.4).

5. Finally, as to singing in the shower (Br. in Opp. 12), the legal theory of the Fourth Circuit makes singing in a shower a "public performance" if the shower is located in a YMCA or in a high school gymnasium. For that matter, singing "Happy Birthday to You" (or any other copyrighted song) to one's spouse or companion in a restaurant is also a public perfor-

mance, according to the way the Fourth Circuit interprets the copyright law. In each of those cases, the "performance" occurs in a place open to the public or where persons gather who are outside of a normal circle of a family and its social acquaintances. The singers are therefore all copyright infringers, under the Fourth Circuit's interpretation of the statute, as are unauthorized player-performers of copyrighted video games in arcades and 7-11's. If that is an appropriate way to interpret the Copyright Act, this Court's decision in *Twentieth City Music Corp. v. Aiken*, 422 U.S. 151, 155 & n.4 (1975), should give way to that of the Fourth Circuit. If not, certiorari should be granted to correct the error below.

Respectfully submitted,

Richard H. Stern
1300 19th Street N.W.
Washington, DC 20036
(202) 659-1385

Counsel of Record for Petitioners

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